The MAGAZINE of WALL STREET

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By A. T. Miller

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THE MAGAZINE OF WALL STREET
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With The Editors

The Pace Moderates

THESE last two weeks have seemed calm in business and finance, principally because of the greater excitement they followed. Suspense there certainly was, yet among actual developments as distinguished from rather confused apprehensions there was little that could not be called satisfactory and constructive.

We had no wild advances in stock prices to stir the imagination and promise some new sort of sudden, specialized prosperity; as Mr. Miller points out in his discussion of the market situation, the constantly shortened swings of the pendulum on the Stock Exchange are at once the sign of a lack of decision and a guaranty that the condition can not last much longer. Perhaps the doubt in the public mind in regard to industrial profits and stock prices is linked more directly to the question of profits on war orders than to any other. Few better authorities on international trade could be found than Dr. Max Winkler, who comes to some conclusions that may surprise you in his article on page 13—"Anglo-French Needs and Our Capacity To Fill Them."

One surprise for *us* is the story told in "Happening In Washington," about the erstwhile public document once urged upon the public and now mysteriously buried alive. While not among those who see the hand of an Ogpu in every unexplained or secretive Government action, we admit the relish of learning facts someone would rather we didn't know. Like all secrets, it is passed on to you in strictest confidence.

It would be unfair to the motor makers, on the other hand, not to divulge their secret—they are having a Show. The talk is, as discussed both editorially and in Mr. Cresswill's article on the business outlook, that the industry may produce more cars in the last three months of 1939 than in any fourth quarter on record. Even though the war interferes with the publicity given the new models, auto men evidently feel confident it won't hurt their sales. Another bright spot, this one long accustomed to semi-darkness, is the rail equipment industry. This and the utilities serving the industrial regions have relatively much to gain from the upswing in business activity, as you will appreciate when you read the articles on them.

All in all, the bright spots seem to be staying just as bright and the dim spots getting no dimmer. If the next few weeks are quiet in the same trend as the last two no one will miss the hysteria of a while ago, even though it did get the autumn off to a flying start.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Potential Latin-American Trade Boom

By Dr. Max Winkler

Turn Away Business—or Risk Expansion?
A Contrast in Capacities

By John D. C. Weldon

World Strategy Turns on Oil

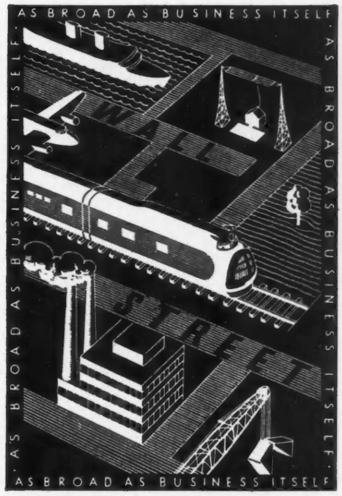
By H. F. Travers

Armstrong Roberts.

The change in the industrial pace has brought the railroads more traffic, new problems in handling it. All over the country wheels idle for months are turning. Modern equipment is on trial to prove its efficiency in moving freight more successfully than in the last war. The effects on the rail equipment makers are discussed in a special article beginning on page 18.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



Questions of the Day

Are inventories in general dangerously high?

It can be proved conclusively that inventories of many representative companies were unusually low at mid-year, and by dependable reasoning that the situation at the end of August was as thoroughly liquidated if not more so. The buying since then has doubtless changed the picture substantially for industry as a whole, tremendously for many individual businesses. The same period, however, has been one of expanding movement all the way down the line from the raw material producer to the ultimate consumer, and it is possible that inventories in terms of sales volume are still below, say, a ten year average. If goods continue to move easily from one hand to another, which is to say if nothing occurs to set the current business trend back on its heels, then it seems a reasonable opinion that inventories are not a danger spot at this time. They are not capable of *initiating* a slump.

Why, with all the Government agencies set up to handle labor problems, are 50,000 or more men idle in the motor industry when this should be their best season of the year?

The major issue between the United Automobile Workers, C. I. O. affiliate, and Chrysler is the union shop. The company holds that union membership is not discouraged but should not be compulsory. Since some 10,000 employees have gone on record as opposed to the U. A. W., the only alternatives open to them in a union shop would be to join the organization and start paying dues against their will or give up their jobs. Among the union demands is one that they be given a voice in deciding production methods, and this too the company refuses. The actual technique of the strike is the "slow-down" at vital points on the assembly line, effectively damming output. Government mediators have been rushed to the scene, but no agency can repay to the men their wages lost with or without their consent, can reduce the waste of this halt to production.

Is the proposal to lend Latin-America money with which to buy our goods a sound one?

No one denies that a number of the prospective borrowers are poor credit risks, judged either on ability or willingness to repay, or both. Loans of this type are obviously unsound in their major premise, but they may be justified if some other objective of an importance comparable to the size of the loans is in sight. In this case we are undertaking, a. to build up good-will in Latin-America, b. to increase business with these countries not merely by providing funds for immediate purchases but by helping with our money to strengthen their internal economies, c. to give a fillip to U. S. industry through a fairly immediate pickup in sales to our neighbors. Or to state the objectives less kindly, we are proposing to buy good-will, to subsidize customers,

Business, Financial *and* Investment Counselors · 1907 — *"Over Thirty-One Years of Service"* — 1939

and to develop a pump-priming technique new enough not to have been discredited by recent experience. Perhaps it is possible to buy respect and mutual confidence at this time, though it has rarely been so in the past. But the most striking part of this whole proposal is that our surplus of idle gold, paid for with taxpayers' money or by borrowing, is used as the excuse, since the gold no longer seems like money to many people.

The Trend of Events

WHAT EXCESS PROFITS? . . . Business promises not to profiteer. Labor and consumer groups inveigh against the practice, newspapers sound a warning and the President advises Congress to keep a vigilant eye on corporate earnings. Legislation to deal with excess profits is already taking shape, presumably to be brought before Congress at its regular session next January. All of which gives rise to the question of just what are these excess profits that are to be taxed?

The distinction between profits and excess profits is by no means clear cut. On Army and Navy business profits are currently limited to 12 per cent which works out to something like 8 per cent in terms of actual net income as Federal taxes and certain other charges are not deductible. In general, however, 6 per cent has long been regarded as a fair return on invested capital or on gross income though it is obvious that a great deal of latitude must be allowed according to the type and inherent risks of any particular enterprise. But if the 6 per cent figure be taken as a general criterion and corporate earnings be measured against it, some interesting facts come to light.

Excluding the depression year 1938 for which figures are not yet available, net income of all corporations has amounted to more than 6 per cent of gross in just two of the past 21 years. In five years—1921 and 1931-34—net losses were recorded. For the years in which profits were realized, the average has been barely more than 4 per cent.

Unless the war brings a bigger and longer boom than now appears likely, business as a whole will have no excess profits to tax. Of course that does not preclude the imposition of such taxes. Those enterprises that do have excess profits can be taxed and the others, as always, can be left to work out their destinies as best they may. But there are some points that our legislators would do well to bear in mind. They are that profits are the life blood of the profit system, labor and the general public alike prospers when business prospers, and the woes that this country has been suffering for a solid decade now do not stem from excess profits but rather from profits inadequate to invite an expansion of private enterprise.

THE NEW MOTOR YEAR . . . As the annual automobile show at New York City nears its end, three weeks earlier this year than last, it is apparent that the industry is starting off the new motor year in very fine fettle. September factory sales, amounting to 200,780 cars and trucks, gained 94 per cent from August, low month of the year, and 124 per cent from September, 1938. The latter gain would not have been as great, of course, had the 1938-39 model year gotten under way as early as the 1939-40 year. But even that cannot seriously detract from the present encouraging performance and prospects of the motor makers. The labor situation permitting, 1939 earnings statements should make quite pleasant reading.

Current estimates place Chrysler's net for the year at $8.50 to $9 per share, while General Motors should report in excess of $4. Improved showings are expected among the other units in the field. These figures presuppose an active fourth quarter and such, indeed, appears likely. Production schedules call for output of about 1,240,000 units in the final three months of the year which would be a gain of almost 25 per cent over the like period of 1938.

New models are being well received—so well, in fact, that buyers of some makes are having to wait several weeks for delivery. Generally lower prices, reflecting the concessions that Detroit was able to obtain on steel ordered last spring, add impetus to sales. The new cars, as usual, represent the annual advance in styling, comfort and performance which the motoring public has come to expect from a great and highly efficient industry.

CAN SUCH THINGS BE? . . . There are some pretty strange goings on in the politico-labor world today. Take some recent newspaper headlines.

"CIO Convention Condemns NLRB." That just about makes it unanimous. Probable result: a new Board, a redefining of the Board's function or a revision of the Wagner Act or, perhaps, all three.

"Investigation of John L. Lewis and CIO is Urged in House"—also, "First Federal Indictments in Building Inquiry Name Teamsters Union." Which suggests a pretty wide swing in public opinion over the past couple of years. For politicians are not given to dashing deeds of derring-do unless those deeds are popular with a majority of the voters. Obviously, labor leaders are no longer the political holy men they once were.

"N. Y. State Labor Board Rules Workers Have Right to Reject Unions." The Board's finding, to the effect that workers have as much right to indicate their wish not to be represented by any union as to select one of two competing unions, harks back to an obscure American document, heretofore widely believed to be obsolete, called the Bill of Rights.

As I See It!

BY CHARLES BENEDICT

HITLER ONLY A MEDICINE MAN

Those blundering English and German industrialists and bankers, who backed Hitler to prevent communism, have succeeded only in bringing both Germany and the world to the edge of the great chasm wherein lies oblivion for modern civilization.

As leader of the Third Reich, Hitler has in the space of a few years used up and absorbed the wealth and assets of the nation—which had taken centuries to produce—and in its place he left the German people poverty, slavery and a war machine which he can use to destroy Germany as a nation, if they let him.

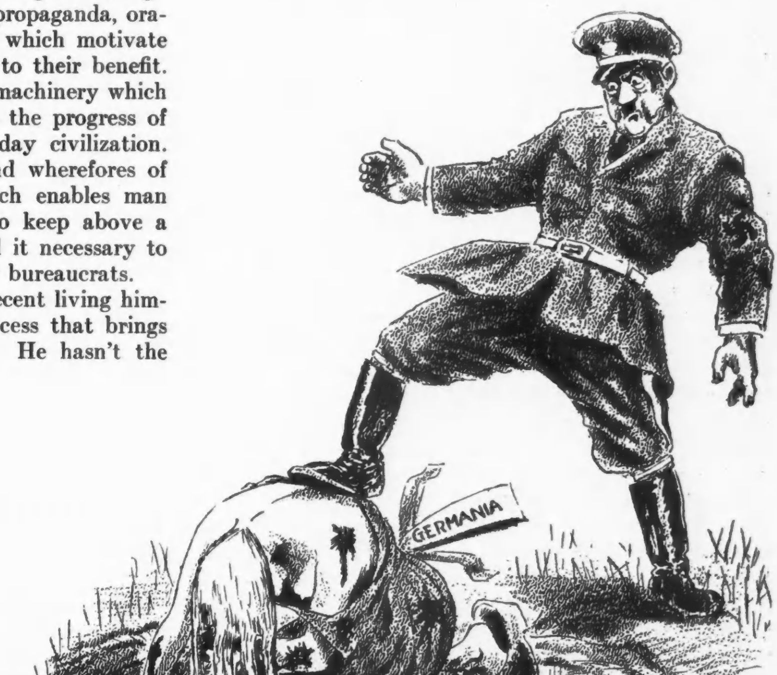
Hitler, like Stalin and revolutionists in general, high and low, is an expert in showmanship, propaganda, oratory and the other emotional elements which motivate human beings to act—and not always to their benefit. He has no conception of the economic machinery which is the basic foundation on which rests the progress of man from the cave days to present day civilization. Nor does he comprehend the whys and wherefores of the ordinary economic machinery which enables man to secure food, shelter and clothing to keep above a subsistence level—or he would not feel it necessary to have all these functions taken over by bureaucrats.

Never having been able to make a decent living himself, Hitler doesn't understand the process that brings rewards to capable men and women. He hasn't the slightest conception of the creation of wealth, of trade, or of producing that standard of living which means a maximum of material comforts and even luxuries. Hitler, like Stalin, is purely a revolutionary, dealing with ideas for the purpose of attaining power.

Before Hitler came, the German people stood among the first in their achievements in mathematics, music, industry, finance and most of the highly developed sciences. The first thing he did was to impair and destroy the schools of learning and to disperse the cultural elements that made Germany great—and thus deprive the growing generation of the fruits of hundreds of years of thinking, experience and sound practice. He countenanced and encouraged banditry and gangsterism by filching the property and jobs of helpless minorities within their midst — setting an unsavory example to the growing generation.

Hitler has brutalized and coarsened young German womanhood by taking girls of tender age out of their homes and sending them to service camps away from their families—submitting them to enforced labor in the fields at unsuitable tasks, from which women have long been redeemed.

The new Nazified German (*Please turn to page* 62)



What's Ahead for the Market

Sobering uncertainty as to the significance of current European maneuvering accounts for continuing indecision. Prudent trading policy is to await the market's own signal of decisive movement out of the recent abnormally narrow trading range.

BY A. T. MILLER

THE whole performance of the stock market since the outbreak of war sums up as follows: a few days of spectacular advance, more than a month of second thought during which a condition closely approaching suspended animation has developed.

As this is written there have been twenty-two consecutive trading sessions in which the maximum range of fluctuation in the normally volatile Dow-Jones industrial average has been only approximately 4 points, on the basis of closing prices. Over the past fortnight this range has been narrowed to approximately 2 points.

In this situation one may be pardoned for bowing to a temptation to find satisfactory explanations and reassurances along purely technical lines—and such an approach quite possibly would be right. In the pattern of the market for a period of months there has been nothing as yet to challenge the view that we are in a major bull trend; and this conception appears supported both by the volume and direction of industrial activity and by bullish monetary-credit factors.

Moreover, it can be logically contended that after the initial, concentrated advance of 21 points in the industrial average it was necessary—regardless of the news developments—for the market to waste a considerable period of time in trading range fluctuation before resuming the advance, for bull markets must be figured with respect to time as well as to points gain.

On this reasoning one can take the position that the market must be given the benefit of any doubt, that the recent tight trading range probably will be broken in the near future—since the market never stands still for more than a relatively short period—and that, the main trend being bullish—the direction of the next decisive movement should be upward.

Yet we cannot ignore the fact that we are dealing not with a more or less normal industrial-financial cycle nor with a set of fixed circumstances in Europe. However sound may be the domestic foundations of our business recovery, neither it nor the stock market can be indifferent to Europe's perplexing military and diplomatic uncertainties.

Unquestionably the most prudent policy over the near term will be to let the market reveal its own story, for that is the only practical test of one's opinions and assumptions. A rise above the September highs, on increasing volume, will be required to confirm the continuing validity of the bull market premise. Meanwhile, the alternative of a shake-out reaction is a distinct possibility, and as regards trading technique such a development is best allowed for by stop-loss protection just under recent lows.

What is the market waiting for? At one time it seemed to wait for the Hitler peace offer. Then it seemed to wait for the British and French replies. While these definitely ruled out an early peace on the German terms, the market refused to accept them as a go-ahead signal. Some observers look forward to the widely predicted repeal of our arms embargo as the next key development. All of which, we believe, is over-simplification of the problem.

Prevailing doubts are not merely a matter of peace or war. We are watching a world-shaking drama which has barely begun and which is being played on a fast revolving stage. The thus far limited hostilities may be confined to Britain, France and Germany — but frenzied diplomatic scouting, veiled in censorship, engages every capital in Europe and in Asia. Nobody can guess what the alignments—which may determine the character and outcome of the war — will be. Now the spotlight focuses on the Baltic and Scandinavia. Now on the Balkans. Now on Turkey, the Dardanelles, Persia.

While we can be reasonably certain that the Allies will not try to break through the German West Wall —relying on slow siege and naval blockade—we cannot be certain at all as to Hitler's tactics.

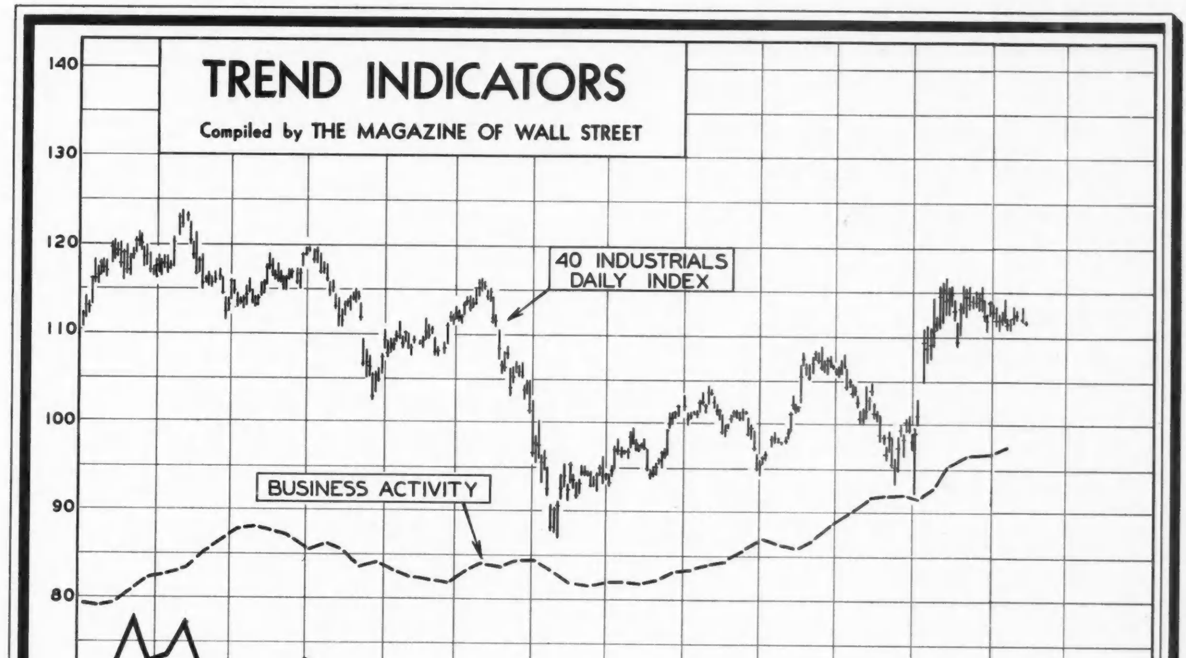
In the whole moving panorama the only partially revealed role of Russia presents the biggest single question—a profoundly sobering question. Sobering also has been the success of German submarines in sinking two capital ships of the British navy, for this casts at least some doubt on the previous optimistic assumption that the Allied armada would easily control the seas.

In short, no one can rationally project what will happen in Europe. That being so, no one can rationally project the economic consequences of what *may* happen in Europe. Here, we think, is the most accurate explanation of the market's indecision. We see no basis even for conjecture as to what event or series of events will throw the picture into clearer focus.

Meanwhile we cannot share the confident view that the economic alternatives in this country are only a sustained high level of business activity on the one hand or unimportant and temporary recession on the other hand. We are at a level of business which, ever since the 20's, domestic factors have not previously been able to sustain for more than a few months. The change in psychology and price factors incident to war speeded us to this advanced position. If psychology and price factors should be changed in the opposite direction by future European developments, it is to be doubted that we could escape a corrective adjustment lasting at least four to six months.

While we see nothing of imminent alarm in the situation today, the present abnormally wide gap between the level of the market and the more advanced level of business should be narrowed before many more weeks have passed. Otherwise this particular abnormality—the most extreme we can recall—will have to be considered as a warning rather than a promise.

—Monday, October 16.



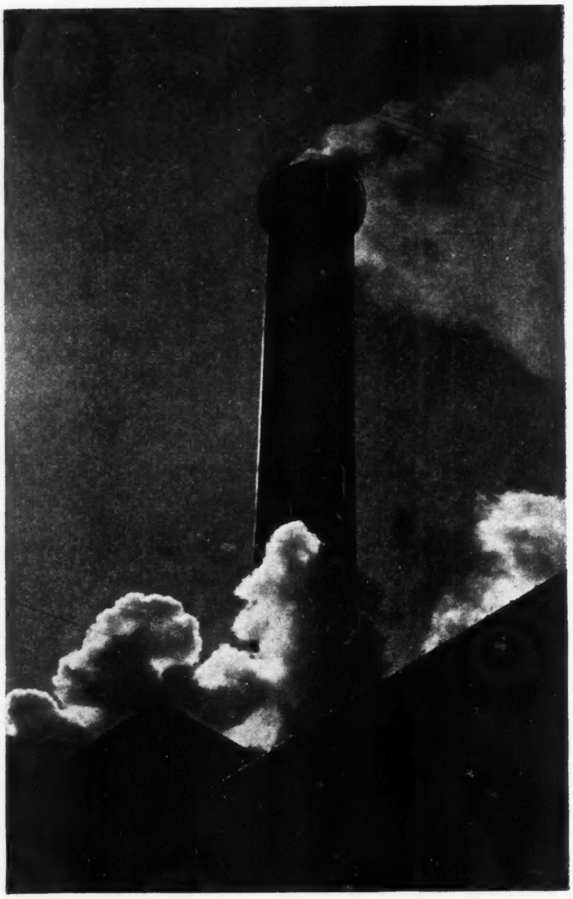
Business to the Year-End

All signs now point to the most active fourth quarter since 1929, but November and December will add little or nothing to the advance already made. The alternatives are maintenance of approximately present volume or moderate recession if war-inflation psychology grows more cautious.

BY JOHN C. CRESSWILL

While debate in the capital rolls ponderously onward to a decision as to what we are to allow the belligerents to buy from us, business men are developing a strong suspicion that the subject has a more remote connection with their affairs than they thought a few weeks ago. Not only the quantity of war orders and the sort of prices the Allies might be willing to pay are in question, but most particularly the *timing* of whatever business develops. It is probable that a franc or a pound spent here in these few weeks before the end of the year would have more effect than several times that amount next spring. And despite the prospect of some specialized war buying immediately after neutrality revision, all signs indicate that the competition to get orders on the books on any terms has seen its big days. The buyers' panic is over, the spectacular gains in industry are at the point of becoming matters of past record, but if nothing worse than a mild tapering off is to follow immediately, business will consider 1939 a year with a happy ending, no matter what worries come with 1940.

For perspective on the next two months we should go back long before the war skyrocketed the business indexes. It was in December of last year that industry made a temporary top on the recovery at 104 in the Federal Reserve Board index, 88 in the compilation of the Magazine of Wall Street chartered on page 9. The following April and May were the low months in the spring setback, both at 92, Federal Reserve. This was a drop of ten points from the January level, a severe and a rapid one. Business held well above the worst



Gendreau

of 1938, but confidence was considerably shaken.

Then began a movement that has persisted through a series of assorted discouragements that would mummify the ordinary pickup. It had taken four months to lose ten points in the Federal Reserve Board index, yet it took only two months to regain them. July and August were equal to January on a seasonally adjusted basis and only two points below the recovery peak, though business men in general were faced with all sorts of reasons for falling back on the defensive.

Right there in the summer months was the sign that industry had done about all it could in the way of pulling in horns, liquidating inventories and reducing new ventures, short of refusing to supply its customers. In relation to the very few past occasions when the index had scored ten point gains in two months the performance was impressive. Considered in the light of the psychology then prevailing it was amazing.

Now to understand what the war has done to the business indexes since then one must appreciate the importance of the spot in the calendar that can only be

identified roughly as around Labor Day. A guessing contest reaches its closing date at that time. Complicated usually by outside factors (and this year, of course, by a number of extraordinarily weighty ones) the nub of the question is: how many new model cars, new overcoats, railroad tickets to the World's Fair or electric razors is Mr. Consumer going to buy this fall? Retailers have only that question before them in deciding their inventory policy; wholesalers must estimate both public and retailers' psychology; manufacturers size up not only their stocks on hand but their commodity requirements and the very adequacy of their plant and machinery according to probable changes in the pace of goods from the raw material to the consumption stage.

September A Key Month

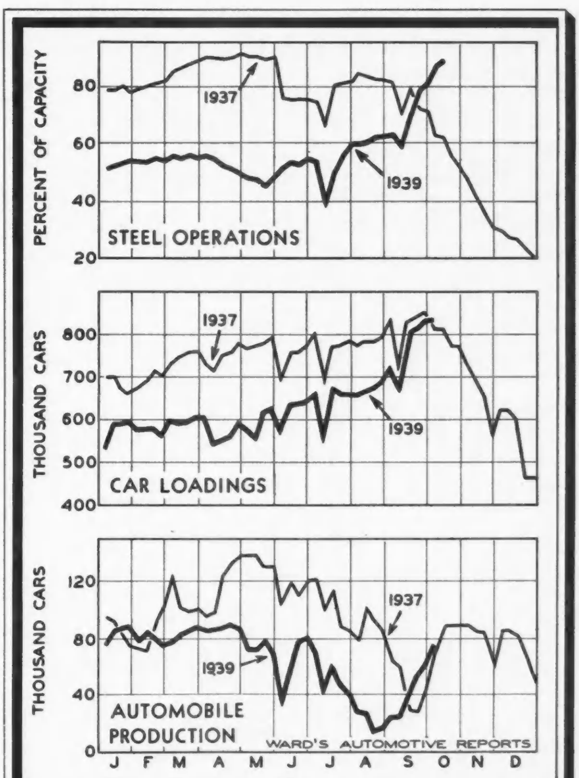
Most industries still consider December 31st the end of their fiscal years, but business in general makes a new start in the first week of September, from the retail stores back to the automobile companies and the steel makers who depend upon them. Mistakes are made here which do not show up in annual reports; wise judgment of the trend becomes especially valuable. And since plans are rather quickly proven sound or otherwise, the verdict in the business index for the entire month of September has a forward implication of greater significance than in any other month of the year. September actually points the way for the whole fourth quarter to come, and frequently for the following twelve to eighteen months.

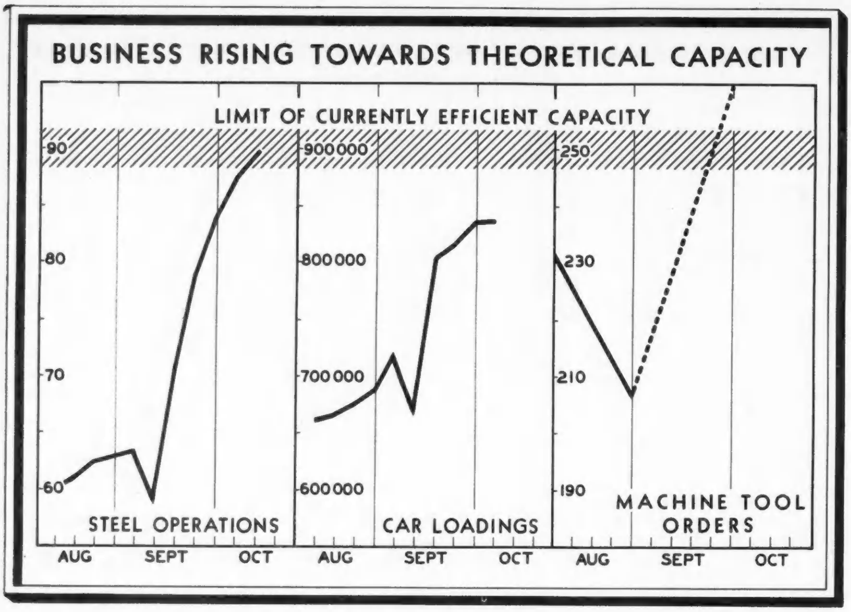
The proof of this proposition is not in the record but in the logic behind it. But if anyone cares to look at the record they will find that since 1919 when the Federal Reserve Board index of industrial production was started there have been eight previous years in which September gained over August. In seven of those years the improvement continued very definitely through the fourth quarter and in the eighth (1926) no noticeable ground was lost. Furthermore, with 1926 still an exception, the years in which September showed a gain were followed by better ones. The single exception was succeeded by a year averaging two points lower in the index.

Last month the gain over August was 8 points, a jump which has never before been registered in September since the Government began keeping figures on the subject. Admittedly half or perhaps more of the rise was the gift of Mars. It is a gift we could well do without. Industry was poised for a completely satisfying advance before any such nebulous factor as war orders entered the equation. It may turn out that September and October have robbed the last two months of the year of some needed business with their exuberance. The fact stands that the current quarter must be the best of 1939 or break a strong precedent and a rather convincing chain of reasoning.

Business has been forced by a decade's sad experience to the conclusion that the encouraging developments come gradually and take effect in a mild sort of way, while the opposite type are sudden and brutally effective. Whatever they may say for publication in the annual consensuses, industrial leaders still expect the worst at the hands of foreign events, politicians, public opinion and pure accident. Their verbal role may be that of Pollyanna, but when they plan their commitments they lean far over toward the conservative side. Think back to the early autumn of 1937, remember the optimistic forecasts of various corporation presidents, and notice the way their orders for steel and copper and new factories were dwindling. Compare that period with the present, when all sorts of warnings and misgivings flood the newspapers yet industry is hiring men, building up depleted inventories, and considering or undertaking plant expansion.

Whatever optimism this conveys should most certainly be confined to the near future. Even within the next two months there might begin precisely the sort of letdown that proved so heartbreaking in 1932, 1933 and 1934. The domestic situation is far stronger than on any of those occasions, but it is still subject to at least the psychological effect of European developments. Everyone is agreed that war is bad for business, yet the unanimous inconsistency seems to point toward a sudden peace as also and equally bad for business. The strange thing is that no amount of reasoning can buck the power of a fear like this to bring the dreaded contingency into actuality. Half-regretting its buying of the recent past, business can only remember the occasions when inventories, though they appeared on the asset side of the balance sheet, were really liabilities. Peace or a strong peace scare would immediately affect the level of raw material prices, thereby changing most inventory policies. Such a development, accompanied by rather wide expectation of a letdown because of it, could materially lower the November-December operating rates of industry, even though its longer term effects might be all for the best.





mediate output. Faster production and shipment of goods had been relied upon to an increasing extent for protection against the dangers of low inventory positions. Large stocks of either raw materials, semi-finished, or finished goods were no longer considered necessary, not only because of the greater speed in filling orders but because of the burdensome excess capacity in most lines. The idea of a producer refusing to sell at any price was fantastic.

Yet exactly that has happened, and the cases have not been so few they could be called isolated. Steel tonnage output in at least one week in October was the largest in the history of the industry. September production was 60 per cent higher than a year ago; the nine months more than equaled all of 1938. Since then the rate has been stepped up about as sharply as physical limitations would permit, but only now is any progress being made on catching up with orders.

There are, however, a number of factors which promise to sustain the business indexes through the balance of the year and limit their drop, if one should occur, to a relatively minor part of the preceding rise. Chief and most dependable among these is the trend in consumer purchasing. While some part of the sales now being made must be attributed to the war and the possibility of ensuing higher prices, the explanation of the long trend lies somewhere deeper. The fact is that the combination of money to spend and willingness to part with it returned to the public long before the war became an influence. The prospect of peace in Europe should certainly do no harm to this aspect of the business situation.

Automobile makers are planning, so far as the unions will allow, a fourth quarter of remarkable dimensions. Ford's schedule calls for the production of 250,000 units in this period, 44 per cent above a year ago, and Chevrolet may approach the same figure, although that would not be necessary to make its fourth quarter production the heaviest in the history of the company. Retail demand has succeeded in working down stocks of cars in dealers' hands from the surfeit to the shortage stage since last January, with September sales up 42 per cent above a year ago, and the probability is that sales to owners will set a new record for the closing months of any year except 1929 and may exceed that. Granting that the change in the model year plays a great part in making such comparisons possible, the fact remains that November and December will receive the benefit of unusually high production in this key industry. Estimates ranging from slightly over 1,000,000 up to 1,250,000 cars to be made in the final quarter mean good news for steel, rubber, paint, glass, chemicals and many other industries including the railroads.

While a great deal of the buying such production figures entail has already been done, most of the actual processing and shipping lies ahead, in some cases so far ahead as to be a matter of worry. One revelation furnished by the September buying wave has been in the speed with which industry approaches its limits of im-

Nearby Ceilings

The accompanying chart presents a rough estimate of the situation in three important industries. Steel at 90 per cent of capacity is using equipment that is afflicted with rust and obsolescence. Recent compilations by *Iron Age* place Youngstown at 93 per cent of capacity, Buffalo at 96 per cent, Detroit at 100 per cent, and some tin plate units at above their theoretical capacity. The flow of orders has slackened, but the episode has shown the ceiling of steel output to be by no means out of reach. The limit in machine tool production is a much more elastic affair, capable of being raised by new facilities on relatively short notice. Nevertheless the gains in orders shown on the chart bring the industry into the ranks of those facing a choice between prorating sales or increasing capacity. As for the railroads, they are being given the benefit of the doubt in setting 900,000 cars weekly as the peak of efficient handling. Unless traffic were well diversified geographically, with shippers cooperating in avoiding bottlenecks, the limit would probably be somewhere between that shown and the current level of about 834,000 cars. Their solution is to buy additional equipment, and they have to all appearances decided upon that policy.

While these and other industries come to grips with the problem of capacity, the Federal Reserve Board index of industrial production is moving upward to another new peak on the recovery, probably to 118 or higher for the month of October. There have been only eight better months in the twenty years of the compilation's existence. (The index is not adjusted for secular growth.) For practical purposes we might place the immediate limit of this rise within a very few points of the current level, concluding (*Please turn to page* 63)

Anglo-French Needs and Our Capacity to Fill Them

Facts Versus Fiction in Appraising the Potential War Boom

BY DR. MAX WINKLER

In view of the fact that a cyclical business recovery of considerable vigor had been in progress in this country for many weeks prior to the outbreak of war, and in view of the further fact that average stock prices have not yet significantly exceeded levels attained at several intervals since the summer of last year, it can not be contended that speculative anticipation of war orders from the Allies has gone to dangerous excess.

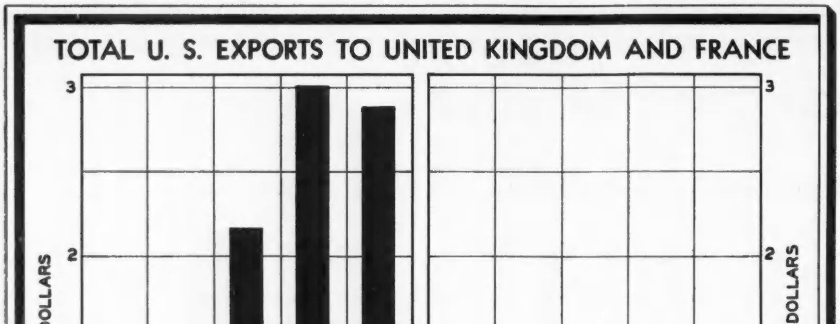
Nevertheless a sizable minority of stocks have been lifted into the "war baby" class, prices of certain commodities have advanced substantially more than they would have done had there been no outbreak of war, and domestic forward buying in large volume has abnormally speeded the pace of business expansion. Hence the question of future war orders can not be dismissed as unimportant. It definitely bears upon the longer business outlook as well as upon the potential values of numerous securities, both stocks and bonds.

In weighing prospective British and French war orders there are many existing factors and future contingencies that must be taken into account. To begin with, the duration of the war—wholly unpredictable—will be a major determinant of the total volume of supplies the Allies will need. Again, the character of the warfare may enter into the problem, for a war of siege and blockade would consume less materials than a war of major offensives and counter-offensives. Against this consideration, however, is the fact that modern mechanized armies require more equipment and supplies than the armies of twenty years ago. On the whole, assuming a long war, it can be safely concluded that the Allies will need large supplies and that, regardless of how fast supplies are used, vital self-interest will force them to expand all types of armament and to build up reserves of materials until peace is in sight.

Regardless of what the Allies' total need for war goods may prove to be, it does not follow that the United States will necessarily be their chief source of supply; nor does it follow—even if this country were a major source of supply—that such demand would stimulate our economy in anything like the degree of the period 1915-1918. Due to the vast industrial growth of the United States since the first World War began, war exports today would have to exceed those of a generation ago by a very large margin to have the same relative economic effect. Moreover, any increase in war exports will have to be balanced against a present and continuing decrease in normal exports to England and France, since both have curtailed imports of non-essentials.

Charles Phelps Cushing photo

Exports Assume Center of National and International Maneuvering



There are a variety of circumstances—which we shall hereafter weigh in greater detail—tending to limit placement of British and French war orders in the United States. They include the following:

1. Within the British and French empires productive facilities are far greater than in 1914, after full allowance for increased populations.

2. The Allies were not caught by surprise, as in 1914, and have been energetically building up stocks of war goods for more than a year.

3. Both Britain and France will have urgent reasons for buying within their own empires, paying for supplies as far as possible with their own currencies and thus conserving both gold and foreign investments which are capable of being converted into gold or into foreign currencies. This is especially vital to England, for the continuous flow of revenues from foreign investments, from shipping services, from tourists, etc., is needed to balance her chronic excess of imports. Since shipping and tourist revenues are reduced, there is all the more reason to conserve foreign investments.

4. There are strategic reasons why the Allies are buying, and will continue to buy, all possible supplies from countries contiguous to Germany, including Russia, Scandinavian and Balkan countries. In short, the British and French will try to "buy up" supplies which they can not cut off from Germany by naval blockade.

In the last pre-war year, Great Britain's total imports amounted to £769,000,000, of which about 18½ per cent came from the United States; about 10½ per cent from Germany; less than 6½ per cent from British India; 6 per cent from France; 5½ per cent from Argentina, and 4 per cent from Canada. Cotton was by far the most important item of import in point of value. Imports of tobacco, fruit, animal products, non-ferrous metals, wood and machinery ranked next. Imports in 1914 declined appreciably compared with 1913. A marked gain was registered in the first war year. Purchases abroad increased, reaching an all-time peak in 1918, the year of the Armistice. Even in 1929, Great Britain's imports failed by a good margin to equal those of the last year of the war.

For a number of years preceding the present conflict, particularly since the Ottawa Conference, Britain's commercial policy was undergoing a marked change: the country's trade was becoming more concentrated within the range of British areas. About half of her exports went to British overseas countries, and more than 40 per cent of her imports came from them. An impressive gain has been registered in trade with Canada, especially as regards imports, with foodstuffs and non-ferrous metals occupying a very important position. There are more than twice as many industrial plants in Canada as there were in 1914. Sales to Canada, on the other hand, have not risen correspondingly. The same is true of other British possessions: Imports from India rose considerably, while sales remained stationary. Purchases from Australia also showed an appreciable gain, while no important change occurred in regard to exports. South Africa constitutes a notable exception: Imports fell off while sales advanced materially. However, trade statistics do not include purchases of gold which, to South Africa, is merely a commodity. If allowance is made for the import of the yellow metal, South Africa would seem to have no grounds for dissatisfaction.

It is also worth noting that in certain respects, domestic production has increased impressively, suggesting that Great Britain is not nearly so dependent upon exclusive foreign markets as was the case during the first World War. Output of steel ingots and castings, for example, which totalled 7,664,000 long tons in 1913, advanced to 13,176,000 tons in 1937. Last year, they

Salient British and French Industrial Statistics

	Index of Ind. Prod.		Prod. of Iron(b)		Prod. of Steel (Ingots & Castings)(b)	
	U. K.	France	U. K.	France	U. K.	France
1929	100.0	100.0	643	864	816	808
1930	92.3	99.6	524	836	620	787
1931	83.8	86.4	319	683	440	652
1932	83.5	72.2	303	461	446	470
1933	88.2	80.7	350	527	595	544
1934	98.8	75.2	505	513	749	514
1935	105.6	73.1	544	482	835	523
1936	115.8	78.3	653	519	998	559
1937	123.6	81.9	719	660	1.098	660
1938	115.5	76.1	573	504	880	515
1939	124.2(a)	91.9(a)	756(c)	732(c)	1.172(c)	745(c)

(a)—At end of June. (b)—Monthly average output in thousand metric tons. (c)—At end of July.

amounted to well over 10½ millions. Agricultural products and cotton, copper and other non-ferrous metals, have been purchased in increasing quantities from overseas possessions, notably India, Rhodesia and Canada. While it is true that modern warfare requires equipment which the home market may not be able to supply in very large quantities on short notice, it should be borne in mind that Great Britain undoubtedly has been accumulating or manufacturing much of what is needed effectively to prosecute the conflict.

In the last pre-war year, the United States supplied less than 11 per cent of all French imports. The figure has not changed appreciably. Great Britain, which prior to the 1914 conflict was the principal source of supply, has fallen to third or fourth place. On the other hand, purchases from the Colonies, which were relatively unimportant in 1913, account today for about one-third of all imports.

Continental France is self-sufficient only in regard to requirements of iron ore, bauxite, potash and salts. Foodstuffs, including wheat, barley and sugar are ordinarily imported from abroad to the extent of about one-fifth of the total requirements of each, although in the event of a crisis such as confronts the nation today, crops might be intensified. Purchases abroad of coal, linen, tobacco and wood pulp vary from 35 to 75 per cent of requirements, depending upon circumstances arising from crop conditions, trade agreements, or industrial activity. According to a recent study prepared by the U. S. Bureau of Foreign and Domestic Commerce, a number of products are not obtainable either in Continental France or within the French Colonies. The extent to which they are imported is presented herewith:

Strategic French Imports

PRODUCT	Import in Per Cent of Total Used
Copper	99.0
Tin	99.0
Jute	99.0
Manganese	98.0
Petroleum	97.0
Cotton	96.5
Wool	95.5
Silk	94.0
Copra	84.0
Sulphur	82.0
Rubber	75.0
Tea	70.0
Coffee	55.0

Some of the above products are produced in the Colonies in limited amounts, but the country is still chiefly dependent upon sources potentially unapproachable in the event of crisis. The alliance with Great Britain has greatly changed the situation. The British fleet is unmistakably in control of the seas. Much more so than in 1914, when German boats were cruising in all the seven seas. Consequently, French imports of copper, essential to the prosecution of the war, will be taken care of by the British possessions in Africa or Canada. Development of copper mines in these two regions have changed radically within the past few years. Output of copper in Canada has doubled in the last seven years, while production in Rhodesia in the same period has increased 1100 per cent. Tin will be supplied either by the French-owned mines in Bolivia or the British-owned mines in the Straits Settlements. India will supply the demand for jute. The purchase of manganese may present difficulties. Russia is the principal source of supply. As a result of the "Unholy Alliance" between the Communist and Nazi dictatorships, Germany may obtain a first call upon Russia's raw materials. However, is Josef Stalin sufficiently charitable to offer his latest bosom friend Russia's products without compensation? While Germany is in desperate need of much that Russia may have to offer, she is in no position to pay for it. Her money has ceased to have any value as a medium of exchange in the world's markets. She has dissipated her entire gold reserve, and barter or compensation arrangements are not popular in time of war.

(That the above brief appraisal of Stalin's character may be accurate is evident from a recent report to the effect that Russia is prepared to ship quantities of wood pulp to the Western Powers.) France's petroleum requirements will be supplied by the British-controlled oil companies in the America's, in Southeastern Europe, or the Dutch East Indies. Cotton will be furnished by India or Egypt, and wool by Australia.

As regards manufactured products, the demand applies primarily to aircraft and flying equipment in general. It is reliably reported that despite the embargo on shipment of arms to belligerents which has halted the delivery of such material, American manufacturers are continuing to produce them as rapidly as possible. It is also stated that substantial quantities of airplanes and aircraft motors are now being held in the name of the British or French Air Ministries, being ready for immediate shipment as soon as the Neutrality Law is modified by Congress. According to surveys, the value of bombers and training planes shipped to England and France for the 12 months preceding the outbreak of hostilities amounted to about $70 million. Continuing contracts call for delivery of airplanes and equipment valued at substantially in excess of the above figure.

The question has been raised as to how purchases in the United States by Great Britain and France will be paid. Even if these two countries were compelled to buy on a very large scale, it is apparent that shipments from England and France to the United States will be greatly curtailed. Invisible income, notably expenditures by American travelers and tourists will also suffer a very marked shrinkage. To be sure, Great Britain and France have substantial investments in the United States. Investments by the former are placed by Dr. Lewis of the Brookings Institute at close to two billion dollars. In an emergency, it should be possible to liquidate these investments and employ the proceeds towards the payment of whatever purchases might have to be made in the United States. There is, of course, one other method of paying for imports: The shipment of gold from England or France.

As regards the ability of the French to increase or enlarge manufacturing activity at home, it is worth remembering that the country's position today is much more satisfactory than it was a quarter of a century ago, when about one-third of the country, comprising the leading industrial and manufacturing sections, was in the hands of the invading Ger- (*Please turn to page* 58)

Happening in Washington

Business in War-Time

BY E. K. T.

PREPARATIONS for war are being kept under cover in Washington these days for reasons of political strategy, but behind the scenes they are going on furiously and far from harmoniously.

The Army and Navy thought that war planning was their job and they have been working at it for 20 years, but now the New Dealers have discovered what these carefully drawn war plans would do to their own ideas of how the country should be run in peace-time or war-time and they are horning into the picture with their accustomed zest. The result is that with the world at war the plans for mobilizing this country's economic resources in case of national emergency are more nebulous than they have been during recent years of peace.

It is Administration policy just now to play down preparedness while the neutrality bill pends in Congress and because of popular alarm over Washington's war-mindedness, but that is not the only reason for the soft pedal. The New Deal agencies dusted off their file copies of the Industrial Mobilization Plan, rubbed their eyes and read it again, then dashed to the White House. Now the plan is being revised, and not entirely by the military arm.

The Industrial Mobilization plan was evolved by the Army and Navy Munitions Board under authority of Congress and first published in 1931. It was revised in 1933 and again in 1936. When the 1936 edition was released it was widely publicized and the War Department stated "We desire the public to know of its existence and what it contains." It was given away freely and sold as a public document until about a month ago. Today it is virtually impossible to obtain a copy, and the President tried to give the impression that it is more or less of a military secret, is of no interest to the public, and is of no current importance since the country is at peace.

The Industrial Mobilization Plan is just what its title implies—a blueprint for using all the nation's production, transportation, financial and labor resources most effectively to promote a quick and certain victory in war.

What the New Dealers don't like about it is first the idea that a complete system of economic planning has been worked out by persons outside their group and largely before they came on the scene, and, more important, the discovery that the plan calls for superimposing military controls over existing Federal agencies, subordinating if not shelving the regulatory bodies established for civil purposes. A War Finance Control Commission would make dead letters of S E C and R F C; a War Labor Administration would put N L R B, wage-hour law, and Labor Department practically out of business for the duration; a Price Control Commission would have broad powers over all commodities, and so on.

Reasons for this set-up are that new agencies could be created faster and easier than old ones could be adapted; new agencies would have single purpose of winning the war, unhampered by inertia and old policies; many activities of existing agencies would continue and these should not be mixed with military duties; with the war over, special agencies could be disbanded and control powers ended quickly, whereas established bureaus would be slow to liquidate war-time personnel and powers.

These sound like good reasons

But the New Dealers don't want Army officers and business executives running the country in war-time, shelving their social reforms and clothed with control powers they have only dared to dream about. Labor doesn't like the idea of being regimented and seeing its hard-won legislation suspended. Farmers want to run their end of the Price Control Commission. Every Government bureau thinks it could do a war job better than the way proposed in the Industrial Mobilization Plan. So the plan is being overhauled. If and when a new revision emerges it will probably be found that practically all of the drastic war-time controls are still in it, but that they are to be exercised as much as possible through the established Government machinery.

A glance at some of these drastic controls shows why it is so commonly said that war would turn this country into virtually a fascist state. The President could tell any plant in the country to accept war orders at a stipulated

price and give them priority over all other business, or could commandeer and operate the plant (this much is already law—part of the national defense act). Prices of any and all commodities useful to the military or to the civilian population could be fixed at either maximum or minimum. Dealers would be licensed and profit margins fixed. Real estate prices, rentals, and construction would be regulated; likewise interest and insurance rates. Foreign trade would become almost a Government monopoly. Hoarding would be prohibited. Natural resource industries would be placed under conservation and priority regulations.

Wages would be standardized and related to living costs. State and Federal regulations on factory hours could be lifted. Migration of labor and competitive bidding for labor tending to force up wages and increase turnover would be regulated, and an employment service would place skilled workers in essential industries and assign women to suitable occupations. A special conciliation and adjustment service would have the job of preventing strikes, securing employment contracts and working conditions suited to maximum production.

Capital too would be regimented. All exchanges could be closed and private sale of securities prohibited. New securities could not be issued except to provide industrial equipment for prosecution of the war, and if this were not sufficient the Government would make loans to industries for this purpose. Factories could be taken over or assigned to war duties. Heavy excess profits and high income taxes would be imposed. Executives would be drafted and assigned to war industries. Fuel and raw materials would be allocated. Shipping, transportation, communication and power industries would operate under military orders.

Reading the Industrial Mobilization Plan makes an ordinary citizen's hair stand on end, despite its factual and dispassionate language. It is no wonder that the New Dealers want to have a hand in it.

CAPITAL BRIEFS

Defense spending is being stepped up rapidly but not ostentatiously. Budgeting appropriations will be spent before end of the fiscal year and additional funds and new authorizations will be sought this winter, after the neutrality bill is out of the way. Money will be voted, although there may be more criticism and opposition to the program than there was last year.

Neutrality bill will probably be enacted in about its present form, though there may be some easing of restrictions on shipping and travel in non-war areas. House should not make many changes in Senate bill, and debate there, while not restricted, will not be protracted.

Inventory study is being mapped by Commerce Dept. to collect much-needed figures. Feeling is speculative buying is building inventories too great for consumptive possibilities, which may lead to a business reaction. Trade associations are cooperating by advising members not to stock up too fast.

Wide World.

Gen. Marshall, new Chief of Staff, fills a key post in preparedness plans.

Price legislation is being studied but will not be proposed unless price increases get way out of hand. Meanwhile persuasion and threats of anti-trust action will be used to prevent arbitrary price boosts. Suggestions under consideration are having Commerce Dept. call conferences of various industries to discuss ways of keeping prices down, with Justice agents sitting in to see that there are no secret violations of anti-trust laws; or to have T.N.E.C. subpoena price information and air it in public hearings. Both Roosevelt and most T.N.E.C. members like this latter idea, and it may be the means of prolonging the monopoly investigation.

Plant expansion for war orders will be speeded by new liberalization of troublesome profit limitation of Vinson-Trammell act under which Treasury will make agreements as to depreciation and cost of new facilities needed to fill naval and aircraft orders.

Walsh-Healey act settling minimum wages for government contractors is in jeopardy as result of circuit court decisions upsetting steel wage decision on ground Secretary of Labor fixed regional differentials instead of determining prevailing wages in locality of each plant. If decision is not reversed by Supreme Court, every wage determination will be invalid and administrative difficulties in making new findings will be enormous. Result may be to abandon the act and consolidate it with the wage-hour law.

Relief funds may be cut drastically next year if business improvement continues because of feeling in many municipalities that under present employment conditions there is no justification for continuing authorized W.P.A. projects. In some places persons furloughed because of long presence on the rolls are now back since no new applicants appeared, and a shortage of skilled and key workers necessary for some projects is reported. But the administration has no thought of abandoning the W.P.A. system because of its "social usefulness" and also to fall back on in case unemployment shows an increase.

The Rail Equipment Boom

Orders on Hand Largest in Many Years and May Be Further Swelled by Armament Demand

BY WARD GATES

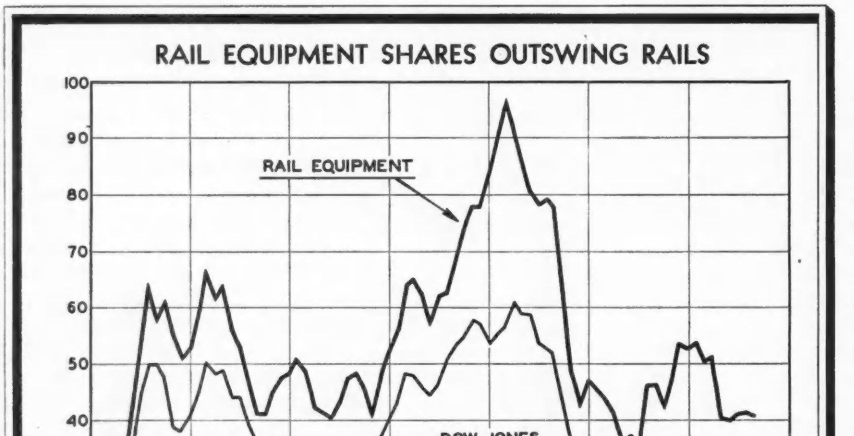
In April, 1917, immediately after the United States' entry into the World War, the nation's rail heads met to announce a program for meeting an incipient transportation crisis. In April, 1923, they convened again to devise means of meeting another crisis centering about the serious car shortage that had arisen from a general strike of shop employees some months before in the midst of a sharp upturn in rail traffic. And on September 19, 1939, the nation's carriers met once more to announce a third such program for handling a prospective rise in traffic that threatened to tax existing facilities. Its pith was that the railroads were again spending money as, indeed, had already been apparent for some weeks.

Does that spell a boom for the rail equipment industry? Well, here are a few hints. More freight cars were ordered last month than during the entire year 1938, more steam locomotives will soon be under construction than at any time in recent years, the dollar value of total equipment business placed in the past few weeks is the highest for any comparable period in almost a decade and the end is not yet.

That partly answers the question, but only partly. For it refers only to railroad business and completely ignores another kind of business, having nothing to do with railroads, that the equipment companies may unfortunately be called upon to handle in increasing volume. It is the business of producing armaments.

Unlike Europe, this country has no munitions industry worthy of the name. There is no American counterpart of Britain's Vickers, France's Schneider-Creusot, or Germany's Krupp. When the unhappy need arises, however, it is the rail equipment industry that becomes the principal domestic source of heavy ordnance. And with repeal of the arms embargo foreshadowed, that need may soon begin to make itself felt.

How important it may ultimately become—always assuming our own continued neutrality—can only be conjectured and will depend to a considerable extent on the duration of hostilities abroad. But if, as in the last war, European demand for American armaments is again to become a major impetus to rail equipment earnings, the chances are that, this time as last, the full effect will not become apparent until later on. Meanwhile, railroad business alone will keep the industry busier than in many a moon.

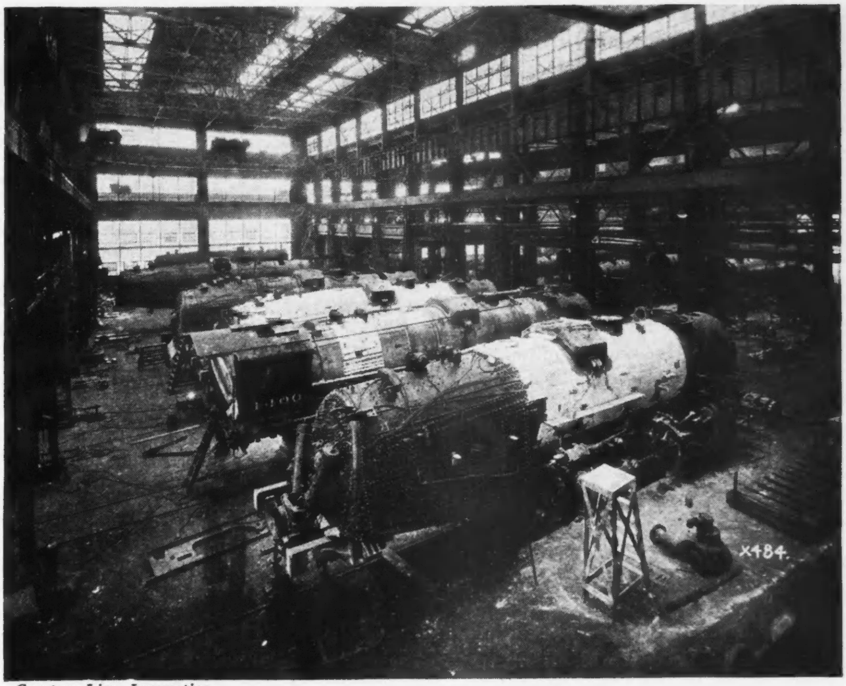


If only the antiquity and inefficiency of the greater part of this country's railroad rolling stock were considered, the present upsurge in buying and repair work would appear remarkable only in that it did not come sooner. But to anyone in the least familiar with the railroads and their almost perennial financial difficulties, the highly sporadic nature of their equipment rehabilitation and replacement activities is an old and readily understandable story.

For the railroads are the traditional poor relatives of the American economic family. Strait-jacketed by Government regulation though beset by competition, over-capitalized and over-unionized, the carriers are further handicapped by the

fact that in point of physical growth they reached full maturity more than two decades ago. Their story since has been one of indigent old age, and even brief periods of modest prosperity have been few and far between.

Which, from the equipment companies' point of view, has a twofold significance. First, it means that the market for rolling stock, track supplies, etc., is strictly a replacement affair. Second, because locomotives and cars are long-lived durable goods and because few roads have anything in the way of surplus cash or credit rating except at rare intervals, the equipment business is alternately feast and famine.



Courtesy Lima Locomotive

Locomotive manufacturers will soon be constructing more engines than at any time in recent years.

The long term trend of railroad equipment buying has been irregularly but unmistakably downward since early in the century. Last year locomotive and car orders dropped to less than one-half the annual average of 1936-37 which, in turn, had no more than equalled the worst years of the 'twenties. When allowance is made for the increase in tractive power of modern locomotives and in capacity of freight cars, the decline in terms of traffic-hauling capacity appears less severe. But even so it has been drastic.

It is apparent, therefore, that any consideration of the equipment industry's prospects must necessarily be from a short term speculative rather than a long term investment angle. True, a handful of concerns have succeeded in diversifying their interests to include some non-railroad business—American Car & Foundry, American Brake Shoe, American Locomotive, American Steel Foundries, Baldwin, National Malleable and Westinghouse comprise the group. But, by and large, and even in the case of these companies, the industry's fortunes are too closely tied up with those of the railroads and, in wartime, with the even more uncertain ordnance trade, to warrant other than a speculative approach.

Competition an Important Factor

Making money in the equipment business is no mean trick even in normal times. Tremendous over-capacity exists in the industry—Pullman or ACF alone could handle more car business than has been forthcoming in any year of the past decade—and the situation has not been helped by the advent of such recent newcomers as Bethlehem Steel, Budd Manufacturing, GM's Electro-Motive Corp. and Timken Roller Bearing.

Moreover, the equipment makers have to compete against their own customers; of the 24,000 odd freight cars booked for construction during September, it is expected that about 10,000 will be built in railroad shops. Still other factors tending gradually to restrict the market for new equipment are the operation of longer trains, a greater efficiency in exchange of cars, higher train speeds, extension of divisional areas and similar developments making possible greater utilization of existing equipment.

Those are potential bear points that, when the going is hard, make it very hard indeed. But, as in most other high leverage situations, when a boom is on all is forgiven if not forgotten and volume counts above all else. Currently and for some time ahead there will be volume aplenty.

Of course not all the money the rails are now spending is going into purchases of new equipment. Much is being spent on repairs. But even here there is substantial business for the specialty makers—companies like American Brake Shoe (brake parts, track fixtures, forgings, castings and bearings), American Steel Foundries (all types of castings), General Railway Signal (signal apparatus, train control systems, interlocking equipment, etc.), Midvale (forgings, castings, locomotive tires; 61 per cent controlled by Baldwin), National Malleable (castings—side frames, couplings, draft gears, etc.), New York Air Brake and Westinghouse Air Brake (AB brakes; latter concern also owns Union Switch and Signal producing signals and other safety devices), Poor & Co. (track supplies, drop forgings, malleable castings) and Youngstown Steel Door (patented car doors and fixtures, car sides, rail shipping containers).

The repair program now under way will involve an expenditure, according to the Association of American Railroads, of more than $100,000,000 and the R F C, in the words of Chairman Jesse Jones, stands ready to advance "any amount needed on easy terms for the repair of railroad equipment." Obviously, a bonanza lies ahead for the better situated specialty companies, and such concerns as American Steel Foundries, National Malle-

able and Youngstown Steel Door would appear to be particularly well situated to cash in.

But whatever the carriers spend on repairs and maintenance type work, outlays for new equipment will certainly be higher. With peak week carloadings this fall approximating those of 1937 at which time the traffic load was the heaviest since 1930, and with rolling stock retirements over the past nine years exceeding replacements three and four times over, something approaching a serious equipment shortage is looming. Advanced age of present equipment—probably more than four-fifths of the freight cars and nine-tenths of the locomotives now on line are over ten years old—is another factor. Modern equipment such as has been developed in recent years means lower running costs and better all-round service, considerations vital to the railroads, particularly from the standpoint of competition with other means of transportation.

Flood of Orders Since September 1

The $70,000,000 spent by the carriers on locomotives, cars and rails in the first eight months of this year—a gain of 60 per cent over the like period of 1938—has already been far exceeded by the dollar volume of orders placed since September 1. The buying rush for some types of equipment has been nothing short of phenomenal. In freight cars, for example, last month saw the largest volume of orders and inquiries since 1924. Locomotive business was somewhat slower to appear but 52 were ordered in September and another 50 were under inquiry at the close of the month.

The initial lag in new locomotive business was in keeping with the usual order of events. Engines are the most expensive type of equipment and there is a tendency to postpone their purchase as long as possible. The point has been reached, however, where a very considerable percentage of the 43,000 locomotives now on line have reached the end of their useful life. Moreover, the above figure for total number of engines in service, lowest in nearly 40 years, is considered an absolute minimum. The ratio of 1939 peak week carloadings to date to operating locomotives was 19½ to 1, highest since 1930. And of course the average age of locomotives in use today is greater now than then. In this connection it is of interest to note that maintenance costs per mile when an engine is three years old are more than double those of its first year; at 27 years, costs are four times those of the third year.

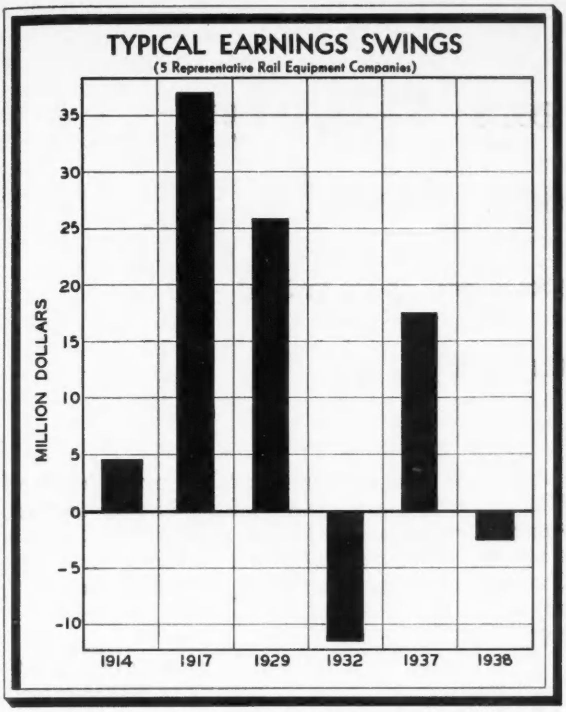
Of the big three steam locomotive makers—American, Baldwin and Lima—the first two have shared the bulk of the available business over the past ten years about evenly though, more recently, American has been running somewhat ahead of Baldwin. American has an advantage in that it is the only one of the three that has been able to compete effectively in the diesel field (however, Electro-Motive Corp. still accounts for about two-thirds of total sales). Since diesels are particularly well adapted to switching service and have practically preempted this market, and because it is in this field that engine obsolescence is greatest (of all engines sold, diesels have recently been outselling steam units about 9 to 1), American Locomotive should continue to come off better than the others as regards new locomotive business.

Also, the company has obtained some diversification through manufacture of oil refinery equipment and, together with American Steel Foundries, Pullman and Baldwin, has a substantial interest in General Steel Castings which specializes in the production of one-piece steel underframes for railroad rolling stock. Baldwin, including its wholly owned subsidiaries, makes forgings and castings, hydraulic and other machinery, marine engines, etc., in addition to locomotives, but its saving feature in the way of diversification is its controlling interest in Midvale, a major producer of ordnance and one of the three industrial concerns in the United States equipped to turn out heavy armor plate (the others: Bethlehem

Seventeen Leading Rail Equipments

	Funded Debt	Capitalization Pfd. Stk. (par value)	Com. Stk. (no. shares)	Financial Position(a) (Current ratio)	Earnings Per Share 1937	1938	1st Half 1939	Divds. Paid or Decl'd 1938	To Date 1939	Price Range 1939 High	Low	Recent Price
American Brake Shoe	None	$5,463,300	769,092	10 to 1	$4.01	$1.03	$1.01	$1.00	$0.75	57¾	31¾	53
American Car & Foundry	None	28,945,000	599,400	13 to 1	d2.12a	d6.15a	NF	None	None	39⅜	16¼	37
American Locomotive	None	35,196,100	767,900	7 to 1	4.75	d4.90	d2.82	None	None	30⅜	13	26
American Steel Foundries	None	None	1,187,496	10 to 1	3.05	d1.47	0.10	0.25	None	41	20⅛	37
Baldwin Locomotive	$9,083,900	1,747,140	1,027,762	5 to 1	0.32	d1.09	d2.05	None	0.40	21¼	9⅛	19
General American Transportation	30,231,991	None	1,032,315	4 to 1	4.44	2.91	1.23	2.25	1.12½	65	40	59
General Railway Signal	None	2,303,800	321,030	32 to 1	1.58	d0.85	d0.33	0.50	None	28	12½	23
Lima Locomotive	None	None	211,057	28 to 1	4.83	d3.26	NF	None	None	40⅞	20¾	36
Midvale Co.	None	None	200,000	5 to 1	6.71	6.22	NF	5.00	3.00	124¾	90½	108
National Malleable	None	None	483,961	9 to 1	4.02	d2.87	0.66	None	None	35¼	14¼	31
New York Air Brake	None	None	259,120	14 to 1	3.61	d0.66	0.83	0.25	1.00	62	27	54
Poor & Co. "B"	1,200,000	None	362,828	5 to 1	1.59	d1.22	NF	None	None	16⅞	7½	15
Pressed Steel Car	3,902,533	4,803,590	478,583	5 to 1	1.08	d3.06	NF	None	None	16½	6	14
Pullman, Inc.	None	None	3,820,189	7 to 1	3.21	0.60	0.29	1.37½	0.75	41⅞	22½	37
Union Tank Car	None	None	1,172,581	12 to 1	1.70	1.16	0.60	1.30	0.90	24¼	20⅛	23
Westinghouse Air Brake	None	None	2,592,155	15 to 1	2.01c	0.32	0.28	1.01	0.50	37¼	18⅛	32
Youngstown Steel Door	None	None	665,920	16 to 1	3.32	0.07	0.29	0.25	0.50	34	17	30

a—As of December 31, 1938. b—Fiscal year ended April 30 of following calendar year. c—Includes 49 cents from sale of securities. d—Deficit. NF—Not available.



and Carnegie-Illinois). Lima has sought to reduce its dependence on railroad business by the production and sale of power shovels, but the latter division contributes little to earnings. The company is seriously handicapped in the diesel switcher field, which it did not enter until last year, in that it does not make its own motors which is almost essential to standardized, low-cost production.

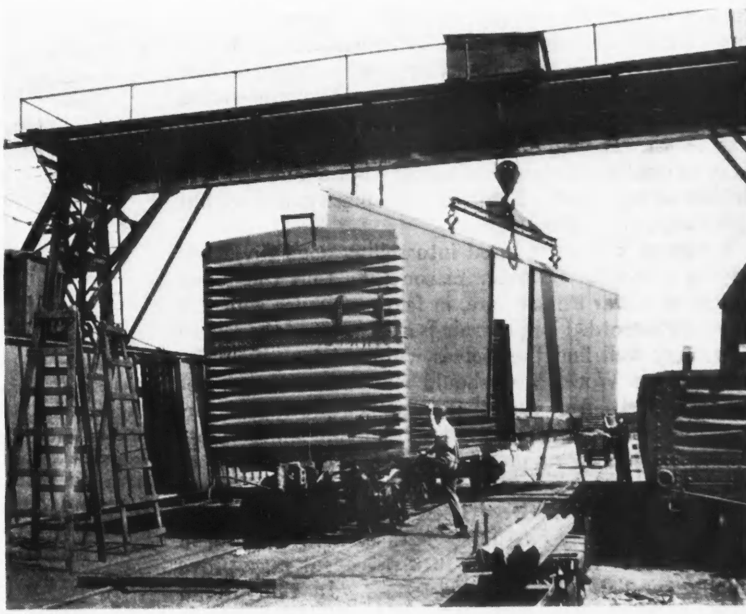
Turning from locomotives to cars, we find a business also subject to very wide swings but somewhat less cyclical than in the case of locomotives. Factors responsible are lower unit cost, shorter useful life and, in the case of freight cars, a relative inflexibility of usefulness that sometimes results in a shortage of some types of car despite an overall surplus of freight carrying capacity. Something of the sort is apparent in the present situation with orders running mostly to hopper and gondola cars. Even so, overall demand is by no means lacking for at the beginning of September there were only 131,000 "surplus" cars as compared with 330,000 a year earlier. Hence, in view of present traffic trends, the rush to add new units and to recondition some of the present fleet of 225,000 bad-order cars.

In the passenger car line, the upturn of new buying has naturally been less marked, but lower fares, the popularity and low operating costs of modern, lightweight trains and the increased home travel to be expected with a general business recovery and a European war are stimulating sales.

Biggest freight and passenger car builders, are, in order, Pullman's wholly owned Pullman-Standard Mfg., American Car & Foundry and Pressed Steel Car. Between them, Pullman and ACF usually split close to half the total available business, Pressed Steel Car (now three years out of receivership) generally getting around 12 per cent, and the remainder going to Bethlehem, sundry small companies and the railroads' own shops. ACF, though its earnings record is very poor, is the best diversified of the group, having a stake in the production of buses, street cars, gasoline engines and carburetors, and the leasing of tank cars. The company is also important in the armaments field and was recently awarded a $6,000,000 contract for 329 tanks for the U. S. Government.

Pullman, of course, is not only a car manufacturer but also the outstanding company in the passenger car leasing field; this division of its business contributes some degree of stability to overall earnings. Union Tank Car, a fragment of the old Standard Oil trust, owns and leases some 30,000 tank cars through exclusive contracts with the Standard companies as well as such independents as Pure Oil, Skelly and Barnsdall. Largest car leasing company is General American Transportation, the bulk of whose 56,000 units are tank cars and most of the remainder refrigerator cars. Earnings and dividends of both General and Union have been characterized by their stability in marked contrast with those of the primarily manufacturing companies.

Foreign markets for American rail equipment, once of considerable importance, have shriveled to relatively small proportions in recent years. However, a revival is undoubtedly in the making. Among recent inquiries were ones for 1,000 freight cars for the French government, 17 locomotives for Brazil, $5,000,000 of engines and stainless steel coaches for Portugal which, except for the war, would have purchased from Germany. Considerable more business is in sight in South America and Asia, and the embattled (*Please turn to page* 62)



Triangle

More freight cars were ordered last month than during all of 1938.

How to Invest Wisely In This Upset World

Suggested Portfolios for Income and Appreciation

BY J. S. WILLIAMS

THE course of an investor is rarely an easy one to chart against reliable landmarks and certainly the developments of the past six weeks have done nothing to simplify it. Quite the contrary. With the outbreak of the European war numerous cross currents were set in motion. Factors which had not been effective for a generation became dynamic and a veritable Pandora's box of new problems was opened over night when Poland was invaded by Germany.

Investors whose portfolios were well cushioned with good bonds and common stocks of the "storm cellar" type and who throughout the previous months had ample reason to congratulate themselves on their foresight, suddenly found themselves holding issues which were dropping swiftly or failing to rise while the market averages were undergoing a dramatic rise. High grade bonds proved to be particularly vulnerable, while among common stocks issues representative of the gold mining, public utility, food, drug and other industries were being liquidated on a sizable scale. The war overshadowed every other consideration in the minds of not a few investors and in the ensuing scramble to divert funds to anything resembling a "war baby" scant attention was paid to merit. Did the company produce sugar? Buy a hundred shares. Such and such company made woolen uniforms in the last war. Fine; buy two hundred shares. And so on. It made no difference that the sugar company or woolen company had nothing but a long string of deficits to its credit. That may be smart gambling but it is dangerous investing.

Investors who were lured into selling good dividend-paying stocks for no other reason than that they were devoid of a war atmosphere, in favor of issues which in 1914-1918 recorded large earnings as a result of the World War, may well find themselves whipsawed, particularly if the latest World War should end sooner than most people expect. And even if the war is a protracted one, it is quite possible that many of the companies whose shares have been so prominent in the initial burst of speculative enthusiasm may never receive a single war order. Many issues have been rewarded with speculative favor largely on the strength of their showing in the last war. But the 1914-1918 precedent may prove wholly unreliable in many instances. In the interim many economic changes have been wrought not only in the United States but throughout the world. To cite only one of these changes, the Allies in the first World War depended largely upon the United States and South America for copper, a vital war commodity. Today, as a result of the development of huge copper reserves in Canada and Africa, Great Britain and France are virtually self-sufficient so far as their war requirements of copper are concerned.

All of which, however, is not to deny or belittle the possible potency of war as a business and economic factor in the United States. Nor is it denied that the investor is

Selected Issues for Dependable Income

BONDS

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Call Price	Current Yield
Allied Stores 4½'s, 1951	92	96¼	88½	104	4.89
Texas Corp. 3's, 1959	100	105½	95¼	104	3.00
Milw. Gas Lgt. 4½'s, 1967	99	101½	93½	105	4.55
Nat'l Pwr. & Lgt. 5's, 2030	101	106¼	92½	106	4.95
Florida Power 4's, 1966	94	99	89¾	105	4.26
National Steel 3's, 1965	99	103⅞	92½	104	3.03

PREFERRED STOCKS

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Call Price	Current Yield
Spicer Mfg. "A" $3	49	50	42	57½	6.12
No. Amer. 6% ($50 Par)	55	59⅞	52⅜	55	5.45
Firestone Tire 6%	105½	99¼	103	105	5.60
Household Finance 5%	110¾	102	102	110	4.50
So. Cal. Edison B 1½%	29⅞	27	28	28¾	5.00

COMMON STOCKS

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Dividend	Yield
General Foods	40	47⅞	36⅝	2.00	5.00
Safeway Stores	42	48⅜	27¾	1.75*	....
First National Stores	45	51	38⅛	2.50	5.56
May Department Stores	52¾	40¾	48	3.00	5.66
American Can	112	116½	83¼	4.00	3.57
Commonwealth Edison	30	31⅜	25⅝	1.80	6.00
El Paso Natural Gas	41	41	28	2.00	4.88
Commercial Credit	45	57	38¾	4.00	8.89
Commercial Inv. Trust	50	60	42	4.00	8.00
Melville Shoe	58	62½	46	4.00	6.90
Sterling Products	73	79¾	65	3.80	5.20

*—Paid thus far this year.

compelled to make some compromise between the principles of sound investment and the existing realities. The point is that with the war less than two months old, offhand assumptions and hasty conclusions may prove costly. Any well conceived investment program should provide safeguards against possible contingencies.

It was not so long ago when inflation was a much discussed investment factor and it was deemed advisable to safeguard against a deterioration in income and purchasing power by including in an investment portfolio a certain percentage of common stocks of the type which promised at least partial immunity. That there has as yet been no considerable inflation or diminution of investment purchasing power does not invalidate the wisdom of taking steps in advance to guard against it. Yet the investor who "went the whole hog" and supplanted all of his fixed income securities with common stocks would have seen many of his bonds rise to record high levels, and would indeed be fortunate today if some of his common stocks did not show losses.

The situation at the present time differs only in the details. War is both inflationary and deflationary in that order. A prolonged war, whether or not the United States is directly involved, will inflate prices, wages, corporate earnings, interest rates, debts and dividends. The aftermath of a long war is deflationary. Thus in the first six weeks of the war we find investors anticipating far in advance a rise in interest rates and a decline in the purchasing power of fixed income securities. High grade bonds have been subjected to large scale liquidation. On the other hand, investors have anticipated higher costs by selling public utility, food, gold mining and other groups of stock identified with industries lacking a flexible price structure for the commodities which they produce and services which they render. The shift has been to the metal, oil, steel, automobile, chemical, machinery, equipment and other cyclical industries—and the outright "war babies."

There is, of course, much to be said in favor of the cyclical industries in the present economic setting. The rotation of funds between bonds and stocks and types of industries is a tried investment principle. Even prior to the outbreak of war these cyclical industries were showing unmistakable signs of gradual recovery. Yet it is to be doubted that a stock such as Bethlehem Steel would have scored a gain of fifty points had not the war introduced a dynamic new factor into the company's prospects. The same can be said of many other issues.

This brings up an important point. Should the investor, therefore, observing the verdict of the market as to the potential effects of the war upon the earning power of stocks such as Bethlehem Steel common, undertake the shift of a substantial portion of his funds to issues similarly promising?

To do so, in the opinion of this writer, would be an extremely unwise and hazardous undertaking. Few if any sizable war orders have yet been placed and at least until the Neutrality Act is modified one can do little better than guess as to what materials may be purchased in the United States. The technique of modern war has undergone sweeping changes since the World War, and along with it have been developed new types of war machinery and the need for new materials and commodities. Moreover, it is a well known fact that the belligerent nations have been preparing for war for some months, accumulating large reserve supplies of materials and equipment. Aircraft, machinery and fabricated metals seem certain to be among the war supplies which American manufacturers will furnish and the shares of representative companies identified with these industries may be conceded a good measure of speculative promise.

Selected Issues for Business Recovery

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Earned Per Share 1st 6 mos. 1938	Earned Per Share 1st 6 mos. 1939	Dividend
Chrysler Corp.	91	94⅜	53⅝	1.31	5.82	4.00*
General Motors	54	55¾	36⅜	0.66	2.24	2.25*
Borg-Warner	26	32	18¾	d0.28	1.03	0.75*
Electric Auto-Lite	38	39½	22¼	d0.15	2.36	3.00
Timken Detroit Axle	19	18⅝	10¾	0.31	0.99	0.25*
Mack Trucks	27	30⅞	18	d0.75	0.27	None
Link Belt	45	47	31½	0.41	0.50	1.00
Niles-Bement-Pond	65	76	41¾	NF	NF	2.00
Chicago Pneumatic Tool	16	20¼	10	0.05	0.09	None
Crane	26	38	16	1.13	0.45	None
Baldwin Locomotive	19	21¼	9⅛	d0.04	d2.05	None
Inland Steel	95	98¾	67	1.31	2.33	1.50*
Phelps Dodge	42	47½	28⅛	0.76	0.91	0.75*
International Harvester	65	71⅝	45⅞	NF	NF	1.60
Harbison-Walker Ref.	31	33½	17	0.10	0.23	0.45*
Sun Oil	60	66	45¾	0.63	0.34	1.00
St. Joseph Lead	41	49½	27¼	0.02	0.72	0.75*
Montgomery Ward	54	55⅝	40⅛	0.85(a)	1.84(a)	1.25*
J. C. Penney	90	94¾	74	1.85	2.33	2.25*
Westinghouse Elec.	115	121	82½	1.68	2.37	1.75*
Texas Gulf Sulphur	35	38½	26	0.97	0.85	2.00
Du Pont	180	188½	126¼	1.36	3.28	3.75*
Monsanto Chemical	108	114¾	85¾	0.85	1.60	2.00
Air Reduction	60	68	45¼	0.66	0.87	1.00†
Union Carbide	89	94¼	65½	0.89	1.18	1.90*

*—Paid thus far this year. †—Plus extras. (a)—6 mos. to July 31. d—Deficit. NF—Not available.

But the investor whose requirements compel him to stick closely to firmer grounds can still disregard the speculative opportunities held out by the more obvious war issues, yet not be denied participation in expanding industrial activity and profits. There will be many industries and companies whose business and earnings will be accelerated, either directly or indirectly, should substantial war orders ultimately be placed in the United States. At the same time most of these industries and companies could be expected to obtain a full share of normal business recovery, minus the impetus of war orders.

Accompanying this discussion is a selected list of such companies. In their respective industries they are well entrenched competitively and all were able to demonstrate substantial earning power in the prosperous years, 1936 and 1937. Favored again by expanding business activity which promises to encompass most major industries, these companies have an opportunity to do as well, or better, than in those years.

For the investor who must place primary emphasis on security and dependable income a list of bonds, preferred stocks and common stocks has (*Please turn to page* 61)

North American Aviation

The "General Motors" of the Aircraft Industry

BY H. F. TRAVIS

While it is true that the airplane has a distinct economic value today as a growing arm of transportation, this aspect has been to a certain extent sidetracked, for the time being at least, as a result of world conditions. Because of the unsatisfactory state of international relations throughout large areas of the earth the destructive qualities of aircraft have assumed the predominant role. The airplane's power was fully demonstrated in Ethiopia, more completely in Spain and proven beyond question by the German invasion of Poland. Thus makers of aircraft face a special and growing market, particularly in view of the warfare on European and Asiatic continents. Under these conditions it is not too much to assume that the rate of destruction might at certain times equal the rate of production, since in the opinion of many eminent military experts, those nations having an assured and adequate supply of military aircraft have a tremendous advantage over an enemy. Bitter as these thoughts may seem, a realistic appreciation of the potentialities in this situation calls for cognizance of them.

One of the outstanding aircraft manufacturers is North American Aviation. Demand for the company's output has been steadily mounting ever since military craft assumed the predominent position it has. Until the start of the present European conflict the company acted as an important source of supply for both France and Great Britain. With the enforcement of the Neutrality Law, containing as it does embargo provisions prohibiting the shipment of airplanes to belligerent nations, actual transport overseas has been halted. However, North American, as well as other companies having orders from the major European democracies, is continuing to fill foreign specifications by the delivery of planes to either Los Angeles harbor or to warehouses in New York City. Thus, according to contracts at present held by North American, payment is made regardless of the ultimate outcome of the embargo debate now underway in Congress. Repeal of this law would undoubtedly result in further orders to this and other leading companies.

Incidentally European orders benefit plane manufacturers in a twofold respect. Actually such business fits neatly into plans of the U. S. War Department for placing this nation on a secure defense basis with a minimum of cost and maximum of efficiency. Receipt of foreign orders enables manufacturers to put their plants on something akin to a mass production basis, and in addition levels out employment in the industry. North American is also receiving large orders from the United States Government and in competitive bidding for contracts has in many instances obtained the business ahead of its competitors. While orders from the United States Government and in competitive bidding for which was found in practice to amount to 6 per cent net, these regulations have since been liberalized so that both Army and Navy orders are now limited to 12 per cent, which in practice amount to 8 per cent net. In addition certain accounting practices have been liberalized, so that property taxes and maintenance and depreciation on certain standby equipment, for example, can be deducted from costs. Of course, orders from foreign sources contain none of these profit limitation restrictions and consequently are highly satisfactory. Roughly 50 per cent of all orders to the company were from foreign sources in 1938 with about the same proportion during the current year.

Orders on hand, as of June 30, 1939, totaled $19,005,329. This compares with $10,914,529 on December 31, 1938., and with $14,952,853 a year previously, or on June 30, 1938. On August 14, 1939, unfilled orders were estimated by J. H. Kindelberger, president, at $32,000,000, which included a War Department order approximating $15,800,000 for bombers and training planes.

As a matter of fact orders received have shown a steady advance since 1935.

Because of this consistent increase in business and the necessity of making deliveries within specified periods of time, plans are now being undertaken looking toward an enlargement of the company's plant capacity by as much as 50 per cent. This would bring total floor space, upon completion of this addition, to 700,000 square feet, and is expected to require an outlay of from $500,000 to $1,000,000. As a matter of fact no unit in the entire plant is more than three years old, so that the whole layout is along lines embodying the most modern and progressive conceptions in aircraft production.

Outstanding Advantages of the Company

In certain respects North America's plant resembles the production methods utilized in the automotive industry to a much greater extent than any other company in this field. The reason for this is largely the result of concentration of productive facilities on the small and less complex airplanes. Another factor tending to aid in this development is probably the close association of this company with General Motors, which owns 29.1 per cent of the common stock. The progressive modern methods used in the organization of materials and the transfer of parts from section to section of the plant is along lines used in the automotive industry. Likewise production and cost control methods are similar.

Comparing the stock market prices of some leading aircraft shares with that of North American it would seem that certain students of values have overlooked one very important detail. This is that as a maker of training ships North American is not only able to approach mass production conditions, but experience in the various armies has shown that approximately two training ships are required to each fighting plane. The significance of this was impressively demonstrated in February of this year when the French and British governments placed large orders with Douglas Aircraft and Glenn Martin, and at the same time placed a contract with North American that was almost equal to that of the combined order given the two aforementioned companies. The small fighting and observation planes made by this company are understood to be well regarded by the United States Navy, and substantial orders have accordingly been received. It is interesting to note in this regard that airplane carriers in the navy, on the average, carry approximately 67 planes per vessel, so that a fairly large market is also available from this source. Despite the inherent advantages of existent planes the management is continuing to develop new models. In March of this year the company introduced a new attack-bomber, which according to reports, is "believed to be as fast as any airplane of like type in any country in the world." If this newest model develops successfully it could undoubtedly bring an additional and important source of revenue to the company.

In line with the rest of the industry this company reported deficits on its 3,435,033 shares of common throughout the years 1932-1935, inclusive. Beginning in 1936 it managed to break-even and by 1937 reported a profit of $0.14 on the common stock. In the following year, 1938, $0.55 was earned, and, equally important, the profit margin of 19 per cent of total sales was among the most satisfactory in the industry.

For the six months ended June 30, 1939, net income amounted to $2,781,682, or the equivalent of $0.81 per share. This is approximately a 370 per cent gain over the same part of 1938, when $0.17 per share was earned on the common stock. A dividend of $0.40 per share was paid in July, and it is not unlikely that further disbursements will be made near or around the turn of the year. The rate of profit however, as compared with the previous year, decreased slightly in the second quarter as compared with the first, though actual net income was greater. For the three months ended March 31, 1939, some $0.39 per share was earned, while in the following three months $0.42 per share was shown on the common stock. Though the cause for this cannot be definitely determined until further figures are available, the slight decline in the rate of earnings in the second quarter, which was about 270 per cent ahead of the similar period of 1938 as against a gain of almost 540 per cent in the first quarter over the corresponding period in 1938 may possibly be attributable to some minor operating difficulties and somewhat higher operating costs. This assumption does not appear too far from actuality in view of the steady increase in unfilled orders received.

During 1938 the financial position of the company experienced a very substantial improvement. Outstanding bank loans to the amount of $750,000 were completely retired leaving common stock as the sole capital liability. Cash and marketable securities amounted to $3,558,070 compared with $755,863 in 1937. On the other hand inventories account recorded a gain of close to 80 per cent. Thus the financial position was greatly improved with cash and the equivalent in excess of total current liabilities, while the ratio of current assets to current liabilities stood at $2.88 to $1.00.

Unfilled Orders and Earnings

Year	Unfilled Orders, as of Dec. 31	Net Income	*Earned Per Com. Share
1938	$10,914,528	$1,904,086	$0.55
1937	9,301,127	496,103	0.14
1936	5,230,751	4,230	0.001
1935	1,310,412	d18,417	d0.005

*Based on 3,435,033 shares.

Among the fixed assets a total of $1,305,102 for the account of flying equipment was completely written off as well as $155,865 carried as goodwill. On the other hand an additional $185,349 for the account of unused land and property in Maryland was carried as an asset.

While North American has manufactured commercial planes in the past it is now geared to the production of military craft. Its future, like the rest of the industry, is intimately tied-up with (*Please turn to page* 59)

A Special Selection of Five Attractive Stocks

BY THE MAGAZINE OF WALL STREET STAFF

Crane Co.

A leading producer of plumbing and heating equipment for the building field, Crane has an even more important stake in general industry through its valves, fittings and pipe. These products include appliances for controlling liquids, gases and steam, while in the plumbing and heating division the lines range from tubs of all kinds, plumbers' materials and supplies, to radiators and boilers. The company has six plants in this country, four in Canada, one in England and one in France.

MARKETS. Important customer industries in addition to construction are steel, public utilities, oil, railroads, ships and meat packing. Equipment is sold to textile and paper mills, schools, office buildings, homes and farms. Distribution is effected through 134 branch offices in the United States and 22 in Canada as well as by wholesalers who regularly carry a stock of Crane products. Back in 1935 the geographical division of net sales was as follows: 82 per cent in this country, 10 per cent in Canada, and 8 per cent in England, France and other foreign countries. No later breakdown of sales is available.

FINANCES. Despite heavy losses in the depression the company's cash and current asset position is very strong. Nevertheless, as in the past, dividend payments will depend upon earnings. Long term debt consists of $10,950,000 3½ per cent debentures, due in 1951, and $103,567 subsidiary debt. There are 192,803 shares of 5 per cent cumulative preferred stock, each share convertible into two shares of common until the middle of 1942 and into smaller amounts thereafter. The common issue consists of 2,348,628 shares. The company has no bank loans and is retiring its funded debt by sinking fund payments of $350,000 annually.

OUTLOOK. Sales in the plumbing and heating lines have been aided by a favorable trend in the construction industry, although profit margins have doubtless been held down by the tendency to install cheaper types of equipment. Real earning power, however, depends upon greater activity in capital goods lines, utilizing the company's entire facilities. Modest profits had already displaced earlier losses before the current improvement in heavy industry set in; and the second half of the year will doubtless increase the gains.

Crane Co.

Operating Results (000 omitted)

	1934	1935	1936	1937	1938
Net Sales	$50,658	$57,494	$78,012	$98,543	$74,307
Cost of Sales	46,642	51,502	67,085	82,686	70,408
Operating Income	4,016	5,992	10,927	15,857	3,899
Net Income	1,022	1,443	5,802	9,765	381
Earned per Com. Share	NIL	.18	2.04	3.63	d .25
Dividends on Common	....	....	....	1.00	....

Working Capital (000 omitted)

	1934	1935	1936	1937	1938
Cash	$6,944	$8,517	$8,539	$11,539	$15,374
Inventories	18,582	19,338	24,573	29,857	24,708
Total current assets	36,027	38,156	44,888	52,015	49,500
Total current liabilities	4,099	5,283	7,423	7,199	5,240
Net Working Capital	31,928	32,873	37,465	44,816	44,260

Chicago Pneumatic Tool Co.

Having pioneered in the development of portable pneumatic tools from early in the century, this company has always maintained its leadership and continues one of the largest in the field throughout the world. Its business is subject to wide fluctuations in pace, particularly since customers are able to postpone new purchases until their own activities make them imperative, and since customers are in turn of the classes most directly affected by the business cycle. Profits are therefore extremely unsteady and no dividends have been paid on the present common stock issued in 1929.

PRODUCTS. Portable riveters, hammers, drills, buffers, grinders, tampers and wrenches, operated pneumatically and by electricity. Reamers and rock bits for use by the oil industry. Drills of various types for mining and quarrying. Gasoline and Diesel engines intended particularly for small electric power plants; compressors for use with pneumatic tools. Repair and replacement parts furnish a substantial volume of business.

MARKETS. Principal customers are in the construction, shipbuilding, aviation, automobile, oil, railroad and mining fields. Certain machinery is rented, other types sold on long term contracts, but the majority is sold outright for early payment. Approximately 40 per cent of the company's business is foreign, but the great bulk of

this is with Canada, other dominions and England.

PROPERTY. Plants are located at Detroit, Cleveland, and Franklin, Pa., with sales offices and representatives throughout the country. A ten-story building in New York City houses the main office, and products are distributed through numerous warehouses. Foreign subsidiaries own factories in Scotland, Canada and Germany.

FINANCES. Accumulated dividends on preferred stock were eliminated in 1937 by a recapitalization which increased the amount of common stock outstanding and created a new issue of preferred. Entire funded debt was retired in 1937, leaving the capitalization as follows: 68,700 shares of $2.50 cumulative prior preferred stock, each share convertible into 1 2/3 shares of common, 181,135 shares of $3.00 cumulative preferred, each share convertible into 1 1/3 shares of common, and 335,320 shares of common stock. Net working capital is substantial as shown in accompanying table, but the bulk of current assets are in the shape of work in process and finished products. Cash at the end of 1938 was the largest in a good many years, yet only $1,455,000, and would be taxed by any sudden growth in business. This, however, would not be a difficult problem provided the increased business promised satisfactory profits.

RECORD AND OUTLOOK. Characterized by a very spotty earnings record—five deficits on the common stock in the last ten years—Chicago Pneumatic Tool is a frankly speculative equity. Furthermore the conversion privileges attached to the preferred stock issues threaten some dilution of the common in the event of sustained earnings growth and the inauguration of dividends on the junior issue. The company's fortunes are directly bound up with those of its chief customers, and this means great reliance on the trend in producers' goods. Present circumstances suggest that this might conceivably be an asset in the near future rather than the liability it has proven in the past. Foreign business has held up during the last two years while domestic sales have dropped. Canada should continue a good customer, while all earnings in countries where exchange restrictions existed up to the end of 1938 were excluded from consolidated income figures in that year. Selling at about 16, the stock is somewhat nearer its high for the year of 20 than its low of 10.

Chicago Pneumatic Tool Co.

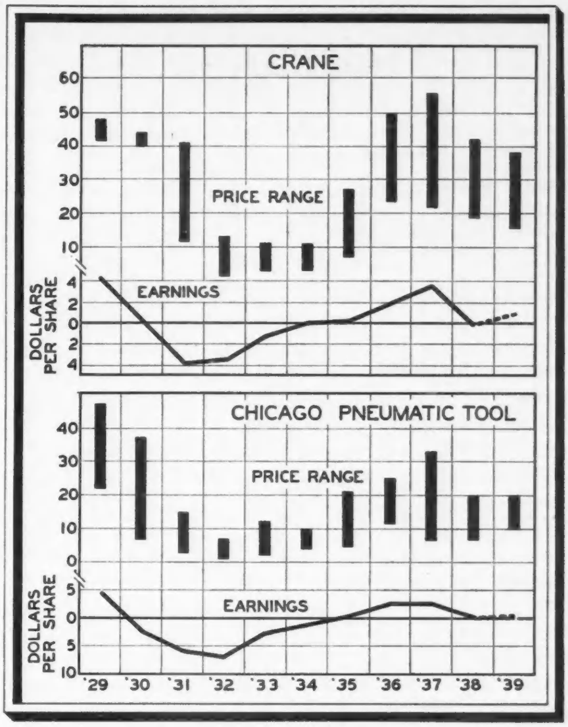
Earnings on Common Stock

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1939	$.02	$.07	....	....
1938	.12	d.08	$.06	$.48
1937	1.32	.91	.74	.47
1936	.17	.66	.74	1.01
1935	.04	.14	.22	.09
1934	d.66	.04	d.27	d.30
1933	d1.72	d1.22	d.78	d1.10
1932	d1.28	d1.77	d2.07	d2.05
1929	.81	1.12	.90	1.81

Working Capital (000 omitted)

	1932	1936	1937	1938
Current Assets	$6,941	$9,448	$10,995	$10,644
Current Liabilities	1,022	2,173	1,759	1,720
Net Working Capital	5,919	7,275	9,236	8,924

d.—deficit.



Mack Trucks, Inc.

As a leader in the production of heavy trucks, Mack has suffered a long series of relatively unsatisfactory years, with heavy construction and durable goods producers in general failing to score any lasting comeback. Earning power had begun to return when the 1937 depression struck sharply and brought a quick reversal to red figures. In the five years to 1929 profits had averaged $9.58 a common share, derived from the well-known heavy duty lines. The lagging pickup in this type of vehicle, partly due to developments in lighter models built by competitors, forced Mack to widen its coverage of the field. The company now makes light delivery models selling at prices near the lowest range for passenger cars, and offers a complete gradation up to the largest capacities in the world. Mack has also developed one of the most complete lines of Diesels offered by any maker, the engines used in both trucks and buses. The regular bus line is supplemented by both gasoline and electric trolley buses, and the company leads in the production of firefighting equipment.

MARKETS. Buses of various types have been a sustaining factor, preventing larger losses than have occurred. Sales of these vehicles as well as fire engines are made chiefly to municipalities and to utility operating companies whose cycles of business do not necessarily correspond with those of heavy industries. The sale of replacement parts has also been important in stabilizing income. The customers who provided the profit margins of a decade ago, however, are in the capital goods field. Rising sales volume in the supplementary lines can hardly substitute for the business in heavy trucks so far as net profits are concerned. Over one-third of the commercial vehicles made in this country last year were for

Mack Trucks, Inc.

	1929	1932	1936	1937	1938
Net Sales (millions)	$57.2	$13.2	$30.8	$34.2	$25.6
Operating Income to Sales (%)	NF	NF	7.1%	6.0%	d2.9%
Net Income (millions)	6.84	d1.48	1.44	1.28	d0.93
Earned on Common	9.05	d2.19	2.41	2.15	d1.56
Current Assets (millions)	44.3	29.2	28.0	26.9	27.0
Current Liabilities (millions)	7.2	1.7	5.6	3.3	3.7
Net Working Capital (millions)	37.1	27.5	22.4	23.6	23.3

foreign use, with Canada and South America ranking high among the customers. Mack has obviously an interest in any increased trade to the south, any demand for mobile equipment for military purposes, or any restrictions which hamper exports to particular zones.

FINANCES. An extremely strong current position starting in 1929 allowed the company to maintain dividend payments throughout the years of deficits and in fact up to the middle of last year. Working capital, as shown by the accompanying table, is still at comfortable levels, but only $1,825,000 of this was in cash at the end of last year, the balance in inventories and receivables. Dividend policy will therefore presumably be less generous for a time, particularly as a rising volume of business would tax the quick asset position more than a stable level. There are no bonds, debts, or preferred stock ahead of the 597,335 shares of common outstanding.

OUTLOOK. A small profit, equivalent to 27 cents a share, was reported for the first six months in contrast to a loss in the same period a year earlier and a loss in the first quarter of the current year. A continuance of present industrial trends would undoubtedly enlarge the company's sales and widen its profit margins. At no time this year has the stock gone beyond the halfway mark in retracing the downtrend from 1937 high levels; meanwhile prospects have been definitely on the mend.

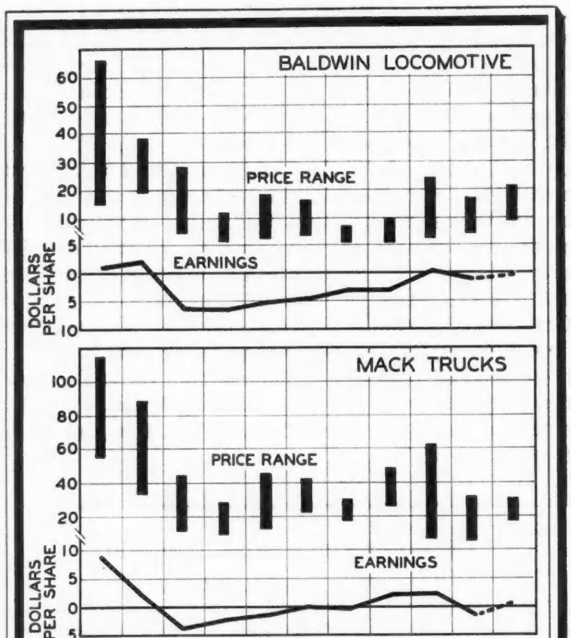
Texas Gulf Sulphur Co.

The largest producer of sulphur in the world, Texas Gulf has only one basic product, only one competitor of any size. Eighty per cent of the sulphur used in this country is consumed in the form of sulphuric acid, converted as needed. The index of sulphuric acid production shown in the accompanying table is therefore an accurate reflector of the rate of sulphur consumption. Laid alongside the Federal Reserve Board's index of industrial production, both based on 1923 to 1925 as equaling 100, the close relationship between the two is immediately apparent. This is natural, since sulphuric acid is not only the basic and cheapest acid of industry but the most commonly used of all chemicals. Yet over the last fifteen years it has made steady progress in relation to general industry, widening its gains in the good years and holding above the lows of the business index in the slumps.

MARKETS. Fertilizer makers are leading users of sulphuric acid, with the petroleum industry also highly important though reducing its consumption over the longer term. Rayon and paint manufacturers have been greatly increasing their takings, and the growth of the entire chemical industry with its constant needs for a cheap acid has been a prime factor in the sulphur demand. Steel, paper, rubber and most industries using any chemical processes are sulphur consumers. Exports in recent years have constituted about 16 per cent of total production.

COSTS AND SELLING PRICES. After holding unchanged at $18 a ton for a dozen years the price of sulphur was reduced about a year ago to $16 a ton. The trend of price, however, has been downward since new methods have been applied to the extraction of sulphur, and the Frasch process used by Texas Gulf has brought costs very low. The process uses hot water under pressure to melt the sulphur and bring it to the surface, dispensing with a great deal of the labor usually involved in any mining. Because costs are so independent of factors like rising wage levels, profit margins might logically be expected to widen if a general rise in prices were to be prolonged.

PROPERTY. Principal deposits are the Boling and Long Point domes, in Texas. The location is strategic, giving access to cheap fuel and to the Gulf for shipping. Property is wholly owned and reserves are sufficient for many years at the present rate of operations.



Texas Gulf Sulphur Co.

	1929	1932	1937	1938
Sulphuric acid production (1923-1925 = 100)	127	67	133	109
Industrial production (Fed. Res. Board, 1923-1925 = 100)	119	64	110	86
Texas Gulf gross sales in millions	$29.98a	$13.49a	$26.04	$17.39
Net income in millions (1929) and 1932 before depletion)	16.25	5.91	11.59	6.96
Profit margin using above net income figures	54.2%	43.8%	44.5%	40.0%
Current Assets in millions, including inventories at cost	$17.63	$18.19	$29.59	$28.94
Current liabilities in millions	1.31	0.91	3.00	1.76
Net working capital in millions	16.32	17.28	26.59	27.18

a—Reported as gross income.

FINANCES. Aided by a very strong working capital position in relation to possible needs, as shown in the accompanying table, Texas Gulf has been able to compile an impressive dividend record. The minimum payment in any year since 1929 has been $2.00, except for 1933 when only $1.25 was disbursed. Extras have been paid from time to time. Capitalization consists solely of 3,840,000 shares of common stock, without funded debt, bank loans or preferred stock to claim a prior share of earnings from operations.

OUTLOOK. One obvious attraction of an equity representing ownership of raw materials which can be extracted with a minimum of labor is its position in an era of swiftly rising prices—inflation, if one chooses to call it that. Admitting a certain amount of interference with export business, there is no reason to doubt that the use of sulphur will continue to grow in the United States and in other neutral countries. Every gain in industry is one for this basic commodity. Though earnings in the first half were only 85 cents a share against 97 cents a year earlier, the last half will make a considerably better comparison. Texas Gulf Sulphur stock has a good measure of stability, making it inappropriate for shorter term commitments, but its dividend is reasonably secure and even at 36, near the high for the year, the issue affords a substantial yield.

Baldwin Locomotive Works

Baldwin and its subsidiaries make steam, Diesel and electric locomotives of various sizes, hydraulic machinery, ship's propellers, armor plate and cannon, and many specialty steel products. The company is a rail equipment but much more over and above that. If one could presume a situation in which the sole choice were between an armaments boom and a standard industrial boom with increased traffic and prosperity for the railroads, Baldwin would stand to gain either way. In this sense it is a peace or war issue. The table presented herewith illustrates the pickup in its business before war began in 1939, as well as the earnings results back in the last war, when Midvale, the present ordnance subsidiary, was not owned. This implies no prediction that the effect of the current war will be identical with that of the last one, but points out the possibilities, the large gains as well as the following drop, inherent in such heavy equipment builders. Throughout Baldwin's existence, wide variations in orders and profits have been characteristic.

MARKETS. The controlling statistics in Baldwin's history have been the purchases of locomotives, although sales of other lines have at times augmented income and in more recent times prevented greater losses. Remembering that a substantial lag occurs between the ordering of a locomotive and its shipment and the recording of a profit or loss on the books, the fluctuations in purchases of this equipment explain Baldwin's problems. In 1922 orders for 2,799 locomotives were placed with the domestic industry; in 1929 business was above the two preceding years, but orders totaled only 1,395. The low year of the depression saw just one per cent of the 1929 business, with 14 locomotives ordered. The best recent year was 1936 with 556 units ordered, followed by 1937 with 481.

FINANCES. Funded debt amounts to approximately $9,000,000, two-thirds of it in the shape of 6 per cent bonds due in 1950 and convertible into 65 shares of common for each bond until 1945 and 55 shares thereafter. The company has the option of paying interest on this issue in preferred stock until next September, thus preserving needed cash resources. Preceding the 1,027,762 shares of common are 58,238 shares of 7 per cent preferred stock, $30 par value, redeemable at $40 a share. There are also 621,172 warrants, each entitling the holder to purchase one share of common at 15 until September 1, 1945. Small bank loans will probably grow with increasing business.

OUTLOOK. Inquiries for locomotives, both domestic and foreign, have picked up and the present situation suggests a large volume of business to come early next year. Baldwin's unfilled orders have been on the uptrend for many months, as shown by the table, bringing the company up to the paypoint, although a substantial loss was shown for the twelve months ending June 30. Dependence upon a heavy volume of equipment orders and leverage in the capital structure make the common stock a wide mover, particularly at a time when assessment of the company's potentialities in war orders is being attempted. The issue is strictly a speculation on the continuance of present trends, now selling at 18½ after a recent new high at 21¼.

Baldwin Locomotive Works

	*Unfilled Orders (millions)		*Shipments (millions)	
	1938	1939	1938	1939
January	$25.0	$15.7	$3.7	$1.6
February	24.0	28.1	2.2	1.7
March	22.2	29.5	4.6	2.3
April	19.1	30.3	4.9	1.9
May	16.6	30.6	3.7	2.3
June	13.3	29.8	4.8	2.5
July	13.9	30.4	1.2	3.3
August	15.4	32.6	2.1	4.0

*—Including Midvale Co.

Baldwin's Wartime Earnings (Not including Midvale)

1914	1915	1916	1917	1918
$0.4	$2.8	$2.6	$8.3	3.3

What Drop in High Grade Bonds Means to Bank Stocks

Big City Banks in Strongest Position

BY PHILLIP DOBBS

THE spectacular decline in the Government bond market has focused attention on the banks—for as a group they are the largest single holder of Treasury obligations. Any prolonged continuation of this decline might logically be expected to have a marked effect on their position. And wary stockholders are asking to what extent the banks are prepared to withstand such possible pressure.

The answer is that, barring a total collapse in the security markets and a depression of a severity for which the years 1930-1933 are no measure, nothing like the banking situation of that period is even remotely possible. For one thing, only the strongest institutions survived those lean years; for another, 98 per cent of the accounts in commercial banks are fully insured by the F. D. I. C. In addition to the protection thus afforded depositors this in effect means that unsound practices have been reduced to a minimum since a threat to revoke deposit insurance is one that no bank can dare ignore. It would most likely bring swift action on the part of the other banking authorities as well, and the bank would find its doors closed. Then too, the policy most banks have pursued in recent years leans toward a far greater liquidity than was formerly the rule. That this is wise is shown by the Federal Reserve Board's survey of the depression. During those dark years the average reduction in deposits amounted to about 40 per cent of the total—and forced over ten thousand banks to the wall. Today, faced with a sudden shrinkage of deposits on a national scale, the average city bank could pay almost 100 per cent of its demand obligations and the average country bank could pay about 70 per cent without *selling a single bond or calling in loans.*

The drop in Government obligations had its origin in the declaration of war in Europe. An element of uncertainty in neutral countries naturally accompanies the outbreak of hostilities between major powers. For the world is so closely knit politically, economically, and socially that the limits and repercussions of vital moves are not always easily discerned. The Treasury market could be termed an extremely sensitive barometer which under the recent pressure of events, turned downward. An added factor of course was the possibility that a sharp increase in the demand for capital might develop as a result of the spurt in heavy industry. This would bring a rise in money rates, and a proportionate fall in high grade bond prices. Even a casual study, however, reveals that the greatest conceivable increase in credit demand could not result in a squeeze. As was pointed out in a recent article in THE MAGAZINE OF WALL STREET, notwithstanding the abnormally high requirements, present excess reserves could finance an extension of credit of about $30,000,000,000 or approximately one half of the nation's yearly income. We are, therefore, definitely not in a run-away money market. At the very most a slight tightening of short term rates may develop as the business upswing gathers momentum. From this it may be concluded that Government bonds

BANKING FACTS

In 1929 bank loans amounted to approximately 42 billions and investments to 15 billions.

In 1939 bank loans amount to approximately 22 billions and investments to 28 billions.

* * *

In 1929 excess reserves were practically non-existant.

In 1939 excess reserves total $5,530 millions.

* * *

217 large city banks have average deposists of $70 millions.
14,934 country banks have average deposits of $2 millions.

* * *

From 1929 to 1939 the national debt rose $24 billions to a total of $40 billions.

From 1929 to 1939 bank holding of Treasury bonds rose $15 billions to a total of $19 billions.

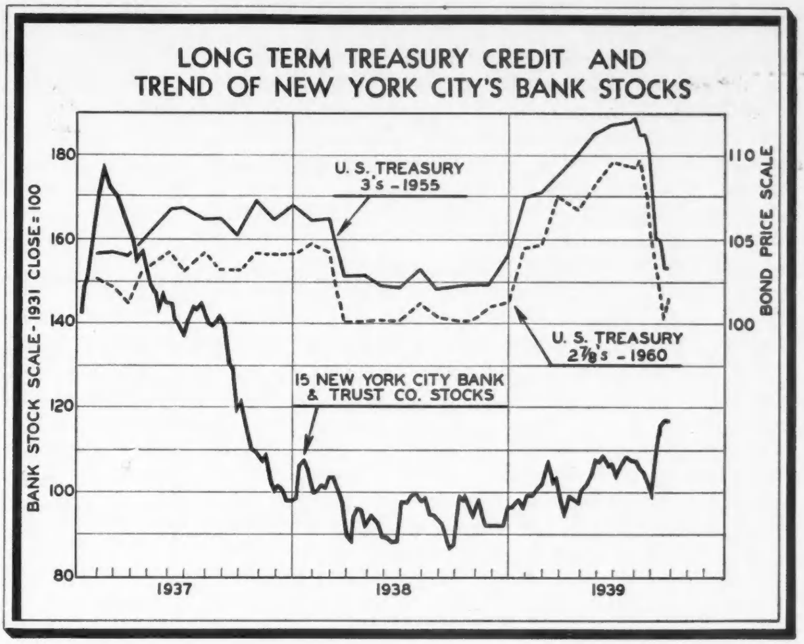
* * *

Since 1934 (revaluation year) gold stocks have risen from $7 billions to over $16 billions.

Since 1934 money in circulation has risen from $5.5 billions to $7 billions.

will in all probability seek higher levels once more, even though they do not reach the highs of two months ago.

Every consideration of the banking problem has two separate and distinct phases. Over $14,000,000,000 or about one third of the total deposits of the 15,151 banks in the country are held by 217 New York and Chicago institutions. These powerful banks have kept pace with the times, and, in spite of a lot of growling about the Government and a reduction in profits, they are for the most part in excellent shape. The thousands of small country banks on the other hand are still handicapped by the fundamental changes in banking operations during the last decade and the disastrous results of their general incompetence and inability to make necessary adjustments.



In the boom era of 1929 loans and discounts constituted about 80 per cent of the average bank's income. Capital improvement loans had shown a declining trend for some time as the larger corporations found it easier and cheaper to issue long term bonds. But the expanding volume of trade widened commercial and collateral loan activity tremendously. For every million dollars in business the banks were advancing $140,000 in credit.

Banks Become Investors

The history of the fateful collapse is well known. It brought with it a reduction in all types of credit extension that wiped out nearly 50 per cent of the average bank's income. In a scramble for income the banks turned to the investment markets in earnest and a new period of banking began. When bonds accounted for only a small portion of earnings power, the big city banks pursued a few simple rules in the selection of issues. Intrinsic values were studied and measured against accepted bases, and yield was compared to prevailing rates. If the issuing company had a good record and was engaged in a stable business, the bond was purchased and tucked away in the vaults. Country banks were vaguer in their studies, but on the other hand they purchased bonds primarily in support of local city or municipal financing, and then only reluctantly. Adjustments were more easily made by the large institutions, and as the bond portfolios increased in importance comprehensive studies were made on diversification, basic values, maturity schedules, risk factors, etc. Losses were heavy, particularly in the rails and foreign issues, but they provided object lessons. Today a review of a large portfolio would show that on the average 80 per cent is in Treasuries, 5 per cent in high grade municipals, 10 per cent in rails, 3 per cent in utilities, and 2 per cent in industrials. Liquidity and changes in money rates are provided for by a well proportioned maturity scale which would show 20 per cent of total market value due within one year, 60 per cent due within five years, 80 per cent within ten years, and only 20 per cent due after that time.

A book might well be written about the operations of the small banks in this field; their practice of lending money to strangers—and the results. Bankers who would never have thought of advancing a thin dime to a client unless they had reams of information about him, blithly purchased bonds on the assurance of a few high sounding phrases on an impressive certificate. No attempt was made to discover what actually lay behind the securities—that is whether for instance the mortgage mentioned was a first or a twentieth lien on the company's property—or whether assets were merely securities of a company that owned securities of a company and so on. Diversification of holdings as a simple safeguard never occurred to the majority of them. Small wonder, then, that over the last decade more than $3,400,000,000 has been written off as a total loss, and losses not realized but against which reserves have already been set up are very large.

Today, of course, an attempt is being made to rectify these mistakes, and the country banks have taken many a hitch in their belts in the process of weeding out sour bonds and putting Treasuries in their place. The ratios of rails and low grade municipals and industrials in the average investment account are still far too high, but they show steady improvement. Government bonds now make up 57 per cent of the total investments of these banks. One serious weakness that will be difficult to overcome is the spread in maturities of their securities. With the necessity for income such an important factor, the tendency has been to purchase the longer maturities. Naturally these are the most volatile, and in the last few weeks have dropped as much as ten points from their highs.

Extremely interesting has been the operation of the Federal Reserve Open Market Committee during

this period. The New York district reported that for the 35 days ending September 27, total Federal holdings of Treasuries increased by $381,000,000—representing a decrease of $93,000,000 in notes and an increase of $405,000,000 in bonds of the longer maturities. This reflects the aim of the authorities to maintain an orderly market in Government securities at all times, and prevent sudden air pockets from demoralizing the price structure. The report also shows that the country banks were heavy sellers, while the city institutions actually stepped in with buying orders. The small banks, it may be presumed, were acting on a mixture of uncertainty over the future in the bond market, a desire to take what profits they had, and an urge to do a little speculating. The trend has been reversed since then as the longer term bonds go back to the country.

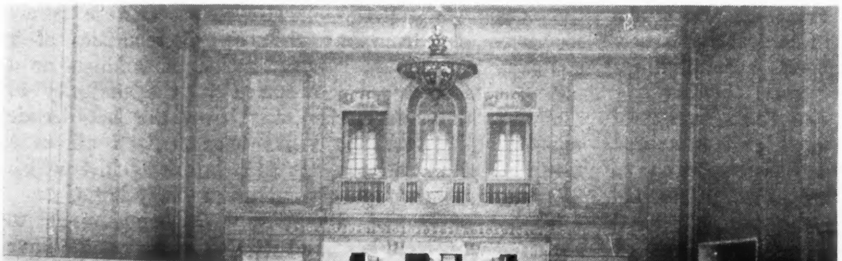
It may be stated as a fixed rule that banks should not speculate with their bond account—the risks are too great. Large banks do maintain successful arbitrage departments, but they are run by men who are experts in their field, and who devote all their time exclusively to the study of the complex structure of the money market and its reflection on bond yields. Where it becomes evident that basic improvements in industry are taking place it is possible for banks to achieve a higher rate of return with practically no change in the risk factors. But this is not speculation, and even so should not be effected without careful consideration of the problems from all angles.

Faced with these difficult questions, the banks have of late shown a greater willingness to cooperate in the exchange of information that is of immense value. Huge organizations have been built up for the express purpose of furnishing vital statistics. Exhaustive studies of almost every industrial enterprise in the nation are published three or four times a year at regular intervals. Then, too, the large banks have staffs of investment statisticians who study the banking problem from all angles and work together with the officers of the country banks in the planning of an investment program. The transition from loans to investments is being effected slowly and painfully, but the realization of the many basic factors involved and the necessity for analyzing them before any action is taken will result in a steady improvement in the position of this type of bank.

Why Is Money Idle?

The question of idle money is a vital one for the banks, and has been a bone of contention between the Government economists on the one hand and the economists of the banks on the other. The New Dealers, with their ever evident idea that Government control should be constantly extended, argue as far as the banks and idle money are concerned that the lag and friction in the flow of investment funds into productive enterprise is at fault and shake their finger at the banking mechanism. In defence the banks say that they cannot, if they are to observe the simplest rules of common sense, lend money on anything but a sound basis. And the demand from sources that have the right qualifications shows no strong tendency to increase because business has no confidence in Government policy. Unless business has some assurance that it will be permitted to make profits that would warrant such action, normal outlays for new construction or even the repair of existing production facilities will not be made. The Brookings Institution has compiled figures which show that even to replace the obsolescent and depreciated plant equipment and raise the standard of living back to 1929 levels would require all the available savings in the nation and put all the able unemployed back to work. The contention is very logically made that we have for some years been living on what we saved during the boom production years, and will have to pay for our neglect of productive capacity or suffer our standards of living to decline still further. As far as the theory that this country has passed the peak of its industrial expansion, and can hope for nothing more than refinements of methods in the future goes—there are several sharp contradictions. For one thing as far back as the middle of the last century noted economists were convinced that the limits of our creative genius had been reached. The folly of such contentions is proved by the automobile, the airplane, the radio, and a thousand other additions to our modern life. With each successive depression this cry is raised and as the business cycle follows through into the expansion period it vanishes. To hazard a guess one might select the fields of chemistry and avia-

(*Please turn to page* 64)



Courtesy First National Bank and Trust Co., Kalamazoo, Mich.

Since 1934 money in circulation has risen from 5.5 to 7 billions.

General Foods' Stable Profits Will Be Maintained

No Serious Threat Likely in Higher Cost Raw Materials

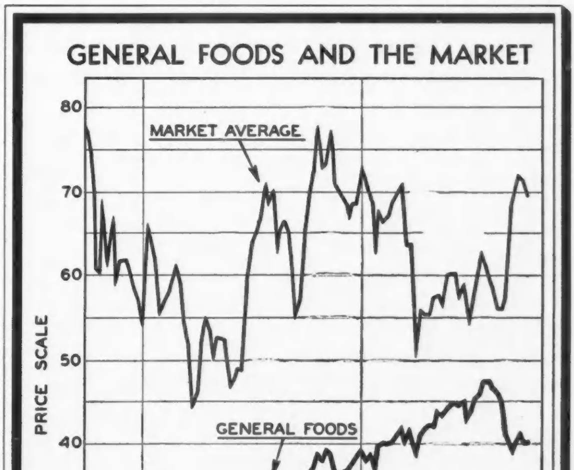
BY STANLEY DEVLIN

A HASTY review of the picture might lead one to think that the sharp rise in commodity values has created a difficult situation for General Foods. Certainly the market's appraisal is not enthusiastic—for during the recent boom the stock drifted aimlessly over a narrow trading range midway between the high and low sales for the year.

What, however, does a more careful examination of the facts reveal? In the course of processing, packaging, and distributing 120 food products with an aggregate value in the neighborhood of $135 million yearly, General Foods does use vast quantities of commodities. But their value in a single package is small in relation to other costs such as cartons, advertising, distribution, etc., and a large percentage rise can be easily balanced by an increase of only 1 cent in the retail sales prices. Then too, in order to insure an adequate supply of the basic commodities it uses, inventories worth about $30,000,000 are carried at all times. This is primarily because special grains, wheats, and corns, are necessary in the production of the cereals and flours the company puts out, and are grown only in certain localities. These reserves give General Foods time to make price adjustments, since very often more than a year's supply of given commodities is on hand. As far as the market action of the stock is concerned, an important consideration is the rush of investors to sell out the steady income producers in favor of issues with a more speculative flavor. Naturally this exerts pressure—but on the other hand there is good reason to believe that this process will be reversed at a point in the future with a compensating effect.

The basis for the organization of the company back in 1922 was the unification under a single competent management of a number of well established non-competing specialty food concerns. Many of the units had been household names for forty or even fifty years before that time, and have since grown in popularity through the expert management of General Foods. Savings in overhead and selling expenses have given stockholders far greater returns than the separate earnings of the units would have equaled. The products include Maxwell House Coffee, Post Toasties, Log Cabin Syrup, Jello, Calumet baking powder, and over a hundred others. Between $10,000,000 and $12,000,000 is spent every year on samples, newspaper and magazine coverage, and radio programs. This huge expenditure is absolutely necessary if General Foods is to retain its leadership of the packaged food industries. Any marked reduction would result in a sharp drop, albeit perhaps not immediately. Though at the time of consolidation some of the products were high priced and enjoyed only limited markets, the company has constantly striven to give its operations greater stability by widening markets and reducing prices. A point in case is Sanka Coffee. Some years ago it sold for $1 a pound and no one outside of the New York area had ever heard of it. Now it sells for $.38 per pound and has a tremendous volume. Obviously it is far better entrenched than it was before. Profit margins are, therefore, slim and since the company handles only slightly over 1 per cent of the nation's food dollar, it has to fight hard to maintain its position.

The majority of the company's products show long term gains in volume—but (*Please turn to page* 58)



Why War Is Bullish for Vanadium, Bearish for American Metal

Two Prominent Metal Stocks With Directly Opposite Market Performances

BY ROGER CARLESON

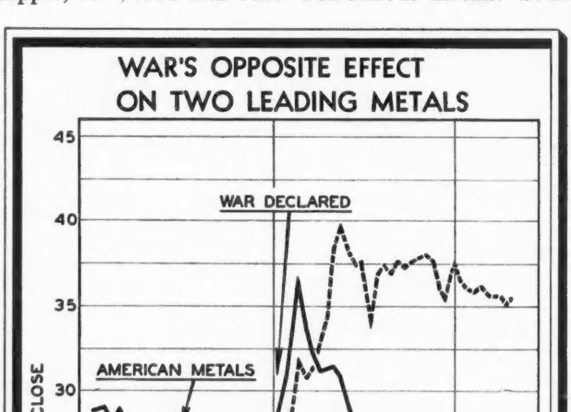
OBSERVANT students of the metal stocks have of late witnessed what is at least superficially a puzzling phenomenon. While a mining and metal stock such as Vanadium Corp. of America has forged ahead in the present market rising from a low of $16 to a high of $40 a share, another prominent metal stock, namely American Metal Co., Ltd. has continued to sell near its year's low of around $25. This, of course, proves the wisdom of the oft repeated advice that the investor, if he expects any success whatsoever, must be prepared to dig into and examine each situation cautiously before drawing conclusions. The aforementioned seeming paradox provides a case in point, while an examination of the factors here involved make for an informative story as well as illustrating the moral that one should look before one leaps.

Up to a certain point both American Metal and Vanadium Corporation have somewhat similar characteristics, but beyond this they diverge sharply. Their similarity is found in the fact that both are metal companies, though American Metal is principally interested in copper and other non-ferrous metals, while Vanadium Corp. owns the largest known deposits of vanadium in the world. These latter are located in Peru. Thus the first point of difference is important since the available supply of copper has increased substantially during the past generation, while the known deposits of vanadium have continued at modest proportions.

Another point of similarity is found in the fact that the principal products of both companies, i. e. copper and vanadium, are used in steel alloys, though the quantity of copper used for this is relatively negligible compared with the total copper consumption, while the chief use of vanadium is that of an alloy of high grade steels. In addition both metals are classified as primary war necessities and therefore are faced with an expanding demand at the present time. Copper is used in a multitude of ways including the making of shells, tanks, electrical installations and in substantial quantities in the construction of vessels of war. On the other hand, while vanadium has an important peace time market, it is used in large quantities in the manufacture of armor plate. It is therefore evident that the products of both companies are at present in large demand and will be in still greater demand if war continues.

A more detailed analysis of these two companies from this point on, however, will reveal further differences and few similarities. Let us start with American Metal, since the economic and political forces involved in this situation are somewhat more obscure than those of Vanadium.

American Metal has three major divisions each constituting an important element in the company's composition. The division located in the United States consists of custom smelting plants for the treating of copper, zinc, lead and other non-ferrous metals. Some



of the metals treated come from properties in which the company has an interest, though the major portion is either purchased, or consists of ore treated for outside interests. In addition some business in the trading and selling of ores is undertaken.

Among the mining companies owned is the Presidio silver mine in Texas, as well as leading silver bearing properties in Mexico and a one-half interest in a Cuban copper company. A 75 per cent interest is held in two lead smelters located in Mexico, while a 29 per cent holding is maintained in the Cotopaxi gold-copper mine in Ecuador, S. A. This brief description covers in general the company's actual smelting and mining activities. The answer to the problem here being examined, however, is not to be found in these branches of the company's activity.

Courtesy Republic Steel Corp., Central Alloy Division.

Polishing a sheet of stainless steel, one of the steel alloys in which Vanadium is an important component.

The most interesting, and from a speculative viewpoint the division holding the greatest potentialities, is the investment section. This branch of American Metal resembles the Newmont Mining Company, which invests in mining properties, and thereby resembles an investment trust. American Metal's two most important holdings consist of a greater than 50 per cent interest in Rhodesian Selection Trust, Ltd. and a better than one-third interest in Roan Antelope Copper Mines, Ltd. These two companies directly or indirectly control some of the lowest cost copper mines in the world, located in Central Africa within the confines of the British Empire. It has been the discovery and development of these properties that has done so much to increase the potential supply of copper in the world during the past ten to fifteen years.

A glance at American Metal income statement makes apparent at once that dividends from these properties constitute the most important source of income for the company. For example in 1938 total income before depreciation and depletion amounted to $3,486,364 of which dividends received accounted for $3,003,559. A goodly percentage, though not the entire sum, of this revenue from dividends was derived from the African properties.

What has happened, therefore, is that as a result of the existence of supplies largely from these African mines the price of copper has advanced, since the initiation of the current commodity price rise in September, relatively modestly compared with experience in 1914. It should be recalled that serious exploitation of these African properties was not undertaken until the latter part of the 1920's. Secondly, the heavy British tax on dividends has been another adverse factor, since this cannot be used as an offset to American income taxes. Thirdly, because the company is located within the British Empire purchases by Great Britain are made in sterling and not necessarily in gold. This is also one of the reasons for the comparatively modest advance in copper prices, since England is able to obtain all necessary supplies within the Empire. Therefore with depreciation of the pound sterling of late from around $4.68 to about $4.02, having sold only recently for brief periods considerably under this figure, the possible revenue in the way of dividends to American Metal stockholders located in the United States has been drastically reduced.

It is these elements therefore that are responsible for the present low price of American Metal common stock. In order to make the picture complete, though it has no important bearing on the problem here under consideration, mention should be made of the company's 9 per cent interest in Climax Molybdenum Co. This unit owns roughly 75 per cent of the world's known supply of molybdenum. This metal is used as an alloy in steel making, and during the past decade the management has increased and broadened the market for its product in a most substantial manner. Other interests held by American Metal include a relatively small holding in Cerro de Pasco Copper Corporation and a 10 per cent holding of the stock of Consolidated Coppermines. One of the large stockholders of American Metal is the Selection Trust, Ltd., which was last reported as holding 290,400 shares. This block could be commandeered and liquidated by the British Government.

While the principal use of vanadium is that of a steel alloy, it has a limited application in the chemical industry. Though it is an (*Please turn to page 57*)

James Sawders from Cushing.

Logs for paper in the Androscoggin River, Berlin, N. H.

Demand for Paper Improving In All Divisions

BY GEORGE L. MERTON

Few industries are more subject to cyclical conditions than the paper industry. Though relatively stable in some respects, the tendency of the industry to increase its productive capacity whenever demand carries prices skyward has led to unfortunate results over a period of years as well as to inherent instability. At present the industry appears headed for better days following its latest set-back, which occurred after a brief spell of prosperity in 1937. Demand in all branches of the industry is improving with forecasts being made that operations in the final quarter of this year will average 90 per cent of capacity. This would compare with operations of 78 per cent of capacity in the final quarter of 1938, and would mean that the industry as a whole would be operating at a record level.

Confirmation of this favorable trend is further indicated by a strong price situation. Ever since the start of the European war demand has become so stimulated that in many instances quoted prices no longer reflect the actual figures at which contracts can be closed. On the other hand prices for certain grades are being maintained throughout the fourth quarter, while in other instances, especially in the case of kraft wrapping paper, firm prices are not quoted at all with the price finally determined upon date of delivery. All of this, of course, makes for volume production, which in turn reduces operating costs.

The principal cause of this hectic rise in quotations, since the start of the war, is found in the necessity of paper board makers to obtain a part of their supplies of cellulose fibre requirements from the Scandinavian countries. This is because domestic productive capacity is not entirely adequate to these needs. With higher freight and insurance rates as well as the increased demand for bottoms, shipments to this country of sulphate pulp have necessarily become more difficult. Even under normal conditions transportation between December and March from the Scandinavian countries is light because of the ice.

Further appreciation of the effect of this situation may be gained from a brief glance at the position of Sweden as a supplier of wood pulp to the United States. Imports during the year 1938 of bleached and unbleached sulphite pulp totaled 437,033 tons, or approximately 17 per cent of the entire U. S. consumption. Likewise in the same year this country imported 350,559 tons of bleached and unbleached sulphite pulp from Sweden, or 12 per cent of total U. S. consumption. It can therefore be readily appreciated that a falling off in foreign supplies would necessarily have the effect of increasing prices for domestic pulp.

As a whole the paper industry is divided into two distinct parts. On the one hand there is the newsprint division, which is largely concentrated in Canada. For example, out of an estimated world total newsprint capacity of 9,500,000 tons some 5,325,000 tons, or approximately 56 per cent, is located in North America of which 4,375,000 tons, or roughly 80 per cent is to be

found in Newfoundland and Canada. The second major division of the industry consists of the production of kraft paper. Domestic requirements for kraft pulp, board and paper facilities are met largely by mills located in the southern part of the United States. Southern capacity has grown rapidly as a result of broadening demand and at the end of 1938 stood at 2,000,000 tons against 1,250,000 tons at the end of 1936, a gain of about 60 per cent within two years.

Kraft Paper

The growth in the production of southern kraft pulp started as far back as the early 1920's. Since that time development of southern production has come along quite rapidly, especially since 1930. By 1938 there was some evidence that productive capacity of pulp mills had run ahead of domestic demand, though some manufacturers producing kraft board and having no pulp mills of their own to supply their requirements, continued to purchase imported pulp. Nevertheless imports tended somewhat lower. In view of the existing situation, however, this increased capacity has had, for the time being at least, a beneficial effect on prices. From a longer view it seems that this additional capacity will be utilized by the growing market demand for kraft products.

Kraft paper is a brown paper used both for heavy and light bags as well as for wrapping paper. Thus production of wrapping paper is about 22 per cent of the total production of all paper. Unbleached sulphate pulp is used in the manufacture of kraft paper and paperboard, and has during the last few years been in greater demand than other pulps such as bleached sulphite pulps, for instance, which is used in making white papers, fine papers and for rayon. Thus it can be seen that the basic raw materials are closely correlated with the finished products.. Therefore it is readily understandable how any sudden stoppage of pulp supplies, even though a small percentage of the domestic output, could radically influence both prices for raw materials, i.e., of domestic pulp, as well as finished products.

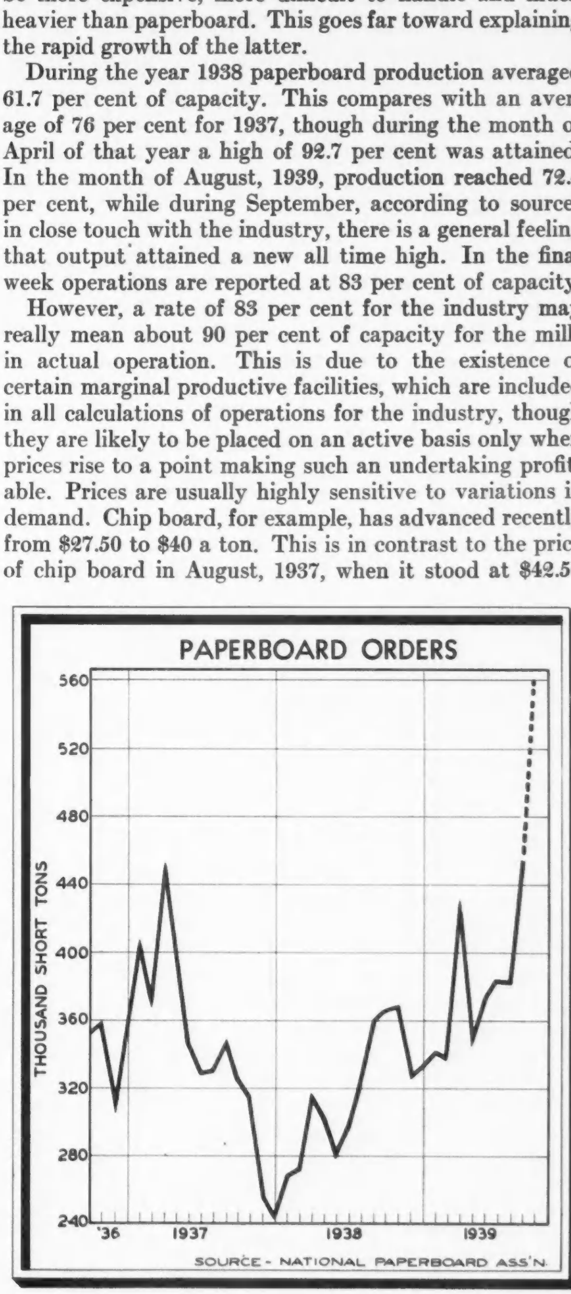
Along with other divisions of the industry demand for paperboard has been on the increase. As a matter of fact improvement became evident some months prior to the initiation of hostilities abroad. Waste paper, which is used in the production of certain types of paperboard, has advanced in price of late from around $4.50 a ton to $10.50 a ton. Other usual raw materials include newsprint, mixed papers, groundwood pulp, cheap rags and sulphite and sulphate pulps, and since all of these are in demand at the moment it is not surprising that finished paperboard is likewise advancing in price. For this reason the margin of profit of manufacturers is unlikely to be considerably improved since costs have advanced simultaneously with selling prices.

Actually paperboard is a fairly competent indicator of consumer demand on which it fundamentally depends. Because of this it is somewhat more sensitive to changes in business activity than is the business index itself, since the latter's components consist partly of heavy industrial indices. Experience has shown that heavy industry demand usually lags somewhat behind the consumer industries in reflecting changes in fundamental economic conditions. Therefore the accompanying chart contains an additional significance at this time. Other factors making for the importance of this chart are found in the usual lack of inventories of paperboard, so that orders and production are closely related. On the other hand it is seldom that large orders pile up, though two exceptions to this occurred. One was in 1933 and the other was during 1937. At the present time evidence is again developing of a growing accumulation of unfilled orders.

Production of paperboard constitutes approximately 40 per cent of the entire domestic paper output. Progress has been steadily achieved since 1920 and gives every indication of continuing because of the superior qualities of paperboard to wood. Except for the packing of very large articles, such as automobiles, wood has been found to be more expensive, more difficult to handle and much heavier than paperboard. This goes far toward explaining the rapid growth of the latter.

During the year 1938 paperboard production averaged 61.7 per cent of capacity. This compares with an average of 76 per cent for 1937, though during the month of April of that year a high of 92.7 per cent was attained. In the month of August, 1939, production reached 72.4 per cent, while during September, according to sources in close touch with the industry, there is a general feeling that output attained a new all time high. In the final week operations are reported at 83 per cent of capacity.

However, a rate of 83 per cent for the industry may really mean about 90 per cent of capacity for the mills in actual operation. This is due to the existence of certain marginal productive facilities, which are included in all calculations of operations for the industry, though they are likely to be placed on an active basis only when prices rise to a point making such an undertaking profitable. Prices are usually highly sensitive to variations in demand. Chip board, for example, has advanced recently from $27.50 to $40 a ton. This is in contrast to the price of chip board in August, 1937, when it stood at $42.50



Newsprint Statistical Position

Year	Consumption by U. S. Publishers	Publishers Stocks at End of Year	Contract Price at New York (per ton)
	(Thousands of Short Tons)		
1938	2,017	284	$50.00
1937	2,256	544	42.50
1936	2,177	251	41.00
1935	1,974	241	40.00
1934	1,847	277	40.00
1933	1,641	200	41.25
1932	1,696	172	50.39

Source: American Newspaper Publishers Association.

a ton and around the year-end started to decline until it reached $25 a ton in July, 1938. These fluctuations in the price of one type of board in the boxboard division give some appreciation of the problems facing the industry.

Some slight improvement during the early months of this year was witnessed in the output of book paper and prices at this time were increased. Latest available figures indicate that some falling off in production occurred in the early summer months. Since then it is probable, in view of the general situation in the industry, that production has continued ahead of last year.

About 60 per cent of all book paper is used in the publication of magazines, while approximately 40 per cent is consumed in the printing of books, pamphlets, circulars, etc. Production of book paper constitutes about 14 per cent of total United States paper output. With the production of book paper dependent largely upon magazine circulation demand is fairly constant, since variations in the latter are relatively small.

During September International Paper Co., a subsidiary of the International Paper & Power Co., reaffirmed the $50 a ton price for newsprint. International usually sets the price for the industry, and $50 a ton has held throughout the year. This figure is sufficient to enable most producers to realize a profit with operations continuing at a reasonable rate. It is generally understood that most of the northern mills are able to operate satisfactorily with the price of newsprint at $43.50 a ton, but this assumes that operations are being conducted at or near capacity.

Summaries of the positions of several leading paper companies are presented herewith.

Kimberly-Clark Corporation: As a result both of diversified activity with substantial reliance at the same time on the production of book paper, the earnings record of this unit is relatively more stable than most companies in the industry. The divisions of the company's business consist, in order of importance, of book paper, wadding and specialties, rotogravure and newsprint. As the second largest producer of book paper in the country this company holds contracts with about 50 national magazine publishers. Output of rotogravure paper accounts for approximately 85 per cent of this type of paper used throughout the nation. A 51 per cent interest is held in Spruce Falls Power & Paper Co. in which the New York Times holds a minority share. This division sells newsprint to The New York Times as well as to other newspapers in the United States.

Since the end of 1934 operations have been at a profitable level. The most satisfactory year was 1937, when $3.61 was earned on the 488,173 shares of common stock. Profit margins in that year were 8.6 per cent, and contrasted with earnings of $2.66 per share in 1938, when the profit margin was 7.1 per cent. During the first half of the current year steady improvement has been shown and for the six months earnings were equal to $1.98 per share against $1.46 in the same part of 1938. To date a total of $1.25 has been declared in dividends during this year.

Champion Paper and Fiber Co. is a leading manufacturer of book paper as well as of a varied line of such specialties as cardboard, milk and butter dish containers, while a few large contracts are held with magazine publishers. Because of the nature of its output this company is considered a relatively stable unit, though it is, of course, influenced by cyclical fluctuations. Fairly extensive timber holdings are owned in South Carolina and Tennessee and in 1936 arrangements were made for purchase of 704,985 acres of timber growth in Texas, where company has erected a plant. Other operations are conducted in Ohio and North Carolina.

Earnings have been erratic with a loss of $0.03 recorded on the 551,000 shares of common stock in the fiscal year ended April 30, 1939, in contrast with a profit of $1.98 per share in 1938. Profit margins stood respectively for these two years at 2.1 and almost 7 per cent. For the first 16 weeks of the current year, as of August 20, 1939, $0.32 per share was reported on the common stock against a loss of $0.54 per share in the corresponding part of 1938. No dividends have been declared thus far this year on the common.

Sutherland Paper Co. produces a vast assortment of paraffined cartons for all kinds of dairy products and folding cartons for packaging and display purposes. In production of paraffined cartons company is the largest in the United States. Output is largely dependent upon the distribution of food and other consumers goods, and while earnings are affected by seasonal and cyclical changes they are considerably more stable than those of most paper companies.

In the year ended December 31, 1938, earnings were equivalent to $2.04 on the 287,000 shares of common stock compared with $2.80 in 1937. Profit margins were satisfactory even in 1938 and stood near 8 per cent, which was somewhat better than most paper companies. During 1937 profit margins were 9.7 per cent partly as a result of satisfactory prices. In the first six months of this year net income fell under that for the same period of 1938 and earnings were equivalent respectively to $0.90 and $1.36 per share. Company has maintained an unbroken dividend at varying rates since 1923. Present annual rate is $1.20.

International Paper & Power Corp. is a completely integrated unit producing all types of paper. Newsprint is the largest tonnage item, though a considerable volume of kraft paper products is produced. Substantial timber reserves are owned in Canada and in the southern part of the United States. *(Please turn to page 59)*

As the Trader Sees Today's Market

A New Record in "Cash and Carry" Stock Markets

BY FREDERICK K. DODGE

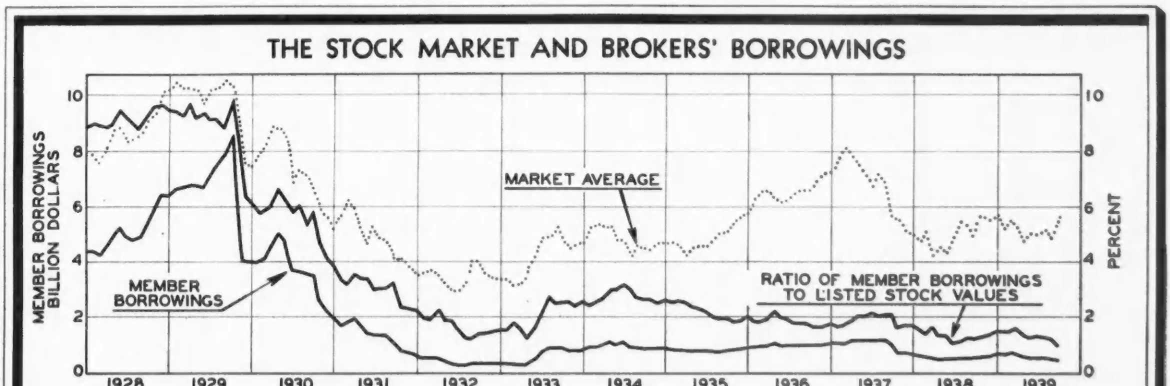
For the first time on record, borrowings of Stock Exchange members amount to less than one per cent of the value of listed stocks. At $467,060,000 they are at a level which would have been considered merely the odd figures on the end of a sum back in 1929. Exactly ten years ago this month they touched the all-time high of $8,549,384,000. If they indicated a dangerous condition then, the chances are that they now have the opposite significance, other things being equal. And that, in this writer's opinion, is an eminently valid interpretation.

Stocks would fluctuate if there were no such thing as a debit balance, if margin trading were completely banned. But under those circumstances there would never be any forced selling to make good deficiencies in collateral caused by a falling market, and the chances are that the average owner of securities would move less impulsively than some do today, if only because of the fact that a greater proportion of stocks would be out of Wall Street and locked up where they could not immediately be delivered against a sale. As things stand, the man with a debit balance and his securities in a broker's hands can be assumed to handle his trading in a different way from the user of a safe deposit box. It is important to be able to estimate how many of each type are in a market at any given time, and the only clues are in brokers' loans as reported by the banks or in member borrowings as reported by the New York Stock Exchange.

Brokers' loans include borrowings by over the counter and curb brokers and are affected frequently by changes in bond dealers' portfolios. The figures on member borrowings are therefore a more reliable indicator as far as Big Board stocks are concerned, with the disadvantage that they are reported only monthly. The compilation began back in 1926, almost immediately setting a record which has since stood, of borrowings equal to 10.23 per cent of the value of listed stocks. By 1929 the total had more than doubled but the value of Stock Exchange issues had done a little better than keep pace, so the ratio failed to reach 10 per cent. When it is realized that these borrowings are in addition to whatever capital the broker supplies himself and to the credit balances of other customers, the 10 per cent level is a noteworthy one. It is no more so, however, than the 0.98 per cent figure just recorded.

The outstanding fact about the September drop in actual borrowings and in the ratio is that it occurred on a sharply rising market which would in nine cases out of ten guarantee increased margin trading. As it was the value of listed stocks jumped $5,787,812,000 and the brokers reduced their loans by $41,518,000. The implication that margin holders sold on balance to outright purchasers is probably not correct, but there can be no question as to the distinction of this market in rallying strongly without the ordinary accompaniment of extended margin positions. That may come later, although we are not likely to see again figures like those of 1929, even if prices should some day repeat those journeys into the stratsosphere.

There appear on the record (that is, since 1926) only four months when the value of (*Please turn to page 63*)



Two "Feast or Famine" Companies Now Feasting Again

BY EDWIN A. BARNES

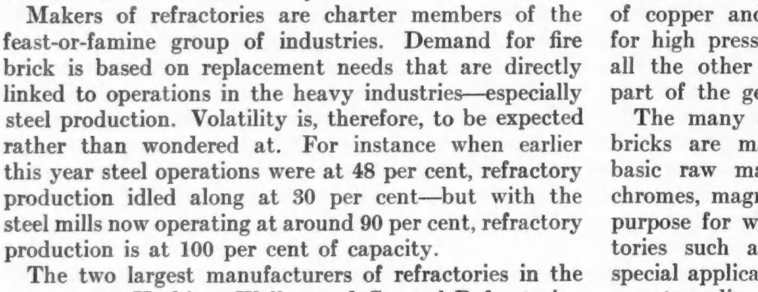
VERY few people know what the production of refractories entails or to what purpose the finished products are put. Yet this is an industry that may have sales of $60,000,000 or more in a good year—a sum that is not lightly to be dismissed. The word refractory means heat-resistance as applied to bricks used in lining fireboxes and heat treatment systems.

Makers of refractories are charter members of the feast-or-famine group of industries. Demand for fire brick is based on replacement needs that are directly linked to operations in the heavy industries—especially steel production. Volatility is, therefore, to be expected rather than wondered at. For instance when earlier this year steel operations were at 48 per cent, refractory production idled along at 30 per cent—but with the steel mills now operating at around 90 per cent, refractory production is at 100 per cent of capacity.

The two largest manufacturers of refractories in the country are Harbison Walker and General Refractories, together accounting for over 50 per cent of the total output. Their firebricks constitute one of the chief materials of which blast furnaces, stacks, and retaining vessels used in the manufacture of iron and steel are made. In addition they are also required in the construction of by-product coke ovens; in the non-ferrous metal industries for furnaces used in the smelting and refining of copper and zinc; in the glass industry as linings for high pressure retorts and lehrs; and in practically all the other industries where heat treatment forms part of the general production process.

The many different types and shapes of refractory bricks are made by grinding, mixing, and molding basic raw materials including hard and soft clays, chromes, magnesite, ganister, or silica according to the purpose for which the brick is intended. Super-refractories such as sillimanite, mullite, and kaolin have special applications where terrific heats, corrosive gases, or extraordinary pressures are encountered. Both Harbison Walker and General Refractories are well supplied in point of raw materials. They have extensive properties from which the greater portion of their needs are taken. General Refractories, the smaller of the two companies, has 36,000 acres of refractory clay and ganister land of which 29,000 acres are owned outright and the rest leased under long term contract. In addition to other ground from which it takes aluminous clay, it has a 40 per cent interest in the Northwest Magnesite Co. which owns the only large commercial deposit of magnesite in the United States.

Harbison Walker is even better able to meet its own material needs. Its properties consist of over 116,000 acres of various types of clay and silica deposits, and it controls the remaining 60 per cent of the Northwest Magnesite Co. These magnesite lands are incidentally growing in importance as the newer



bricks are using a greater percentage of it than before. But even so there is enough magnesite to enable operations at a high rate for more than fifty years. Both companies have followed a policy of purchasing such raw materials as were favorably priced in the world markets in order to conserve their own resources. This, however, does not carry the implication that they could not operate for many years to come on what they literally "have in their own back yards."

The refractory plants are well located in relation to the industrial sectors in the East and the steel centers of the nation. Raw materials are fortunately found mostly close to production centers, thus reducing transportation costs. General Refractories has nineteen plants with an annual capacity of 300,000,000 bricks, and 100,000 tons of ground magnesite and chrome ore. And Harbison Walker has twenty-two plants with over 300 kilns and a total capacity of perhaps 40 per cent more than its rival.

A New Product

Expansion has been vigorous—too vigorous at times—and has been carried out along two lines: the purchase of land containing important deposits of essential materials together with the absorbtion of small independent refractory producers—and the development of new improved products calculated to better meet the requirements of the latest technological achievements in the field of metal, chemical, and glass production. Since the cost of the fire bricks is such an insignificant factor in relation to the total value of the heavy equipment they must protect, the replacement orders of customers have always emphasized quality rather than cost. This freedom from battle over a few cents a hundred bricks has kept harmony in the industry. With changing business conditions, however, attitudes change and last December a price war broke out that carried right through into April of this year. The result was that although shipments for the first quarter of the year were over 50 per cent ahead of the same period last year, earnings on a per share basis were actually lower. A major point in the price structure is a new brick developed and patented by General Refractories, known as Ritex. It is both better and cheaper to manufacture than the ordinary kind used in blast furnaces, and is being specified more and more on replacement orders. The principal material used in its production is the magnesite previously mentioned.

The financial position of both companies shows the results of careful management over the recent years. The 1932 slump brought them both to the brink of disaster. They had been pursuing an intensive program of expansion and were widely over-extended when the bottom dropped out of heavy industry and left them high and dry. Harbison, not quite in such bad shape as the other, still had to borrow several millions from the banks—pass preferred dividends, and economize until it hurt. General Refractories provided an excellent example of the danger in incurring large short term obligations. With operations at about 11 per cent of capacity it had to meet the maturity in 1933 of a two-year, $5,000,000 issue of 5 per cent notes. The losses of the year before had totaled $2,100,000 and included

Courtesy Carnegie-Illinois

Steel takes half of Refractory output for its blast furnaces.

heavy write-offs of inventories and investments. The company was extricated by increasing indebtedness $1,000,000 to $6,000,000, and refunding the note issue with mortgage 6's that were a lien on everything the company had, even to its interest in the Northwest Magnesite Co. and which had stock warrants attached that diluted the equity of the common stockholders and a further provision restricting dividends until the bonds had been practically retired. The immediate consequences were that both companies adopted a more conservative policy and retrenched on expenses. At the end of last year Harbison had only 30,000 shares of 6 per cent par $100 preferred stock outstanding on which there were no arrears, and General Refractories had by dint of constant refundings and retirement reduced both the rate and the amount of its bonds until only $1,000,000 of 3¾'s due in 1949 are outstanding. Expansion has not been neglected either. The most recent consolidation was the purchase of Portsmouth Refractories Co. by General Refractories partly for cash and partly for notes to be paid out of income over a five year period.

For the first six months of the current year, Harbison Walker earned 23 cents per share on its 1,358,883 shares of common stock, and General Refractories reported 28 cents per share on the 469,607 shares it has outstanding. This is as against 10 cents and 14 cents per share respectively for the same period of last year. With the price conflict settled and operations at 100 per cent of capacity and no appreciable letdown in the offing in as much as the steel producers are constantly relining and firing additional furnaces, earnings for the latter half of the year (*Please turn to page* 63)

For Profit and Income

Movie Losses Not Colossal

Hollywood reports, with an audible sigh of relief, that its revenue losses abroad are not as great as anticipated though the situation varies considerably from one company to another. **Columbia** and **Universal**, engaged solely in the production end of the business, are hardest hit. **Paramount**, deriving less than 10 per cent of total gross, including both theatre receipts and film rentals, from abroad, has come off fairly well. **Loew's** and **Warner Bros.**, both with much smaller domestic theatre interests and thus proportionately more dependent on film rentals (of which about one-third ordinarily come from abroad, mostly from Great Britain and South America) are less favorably situated. However, recent re-opening of British movie houses is aiding their foreign receipts.

Prospects Looking Up

If closer economic rapprochement between this country and the Latin American nations entails increased business activity and firmer currencies south of the Rio Grande, as seems likely, **American & Foreign Power** will be a major gainer. Market interest in the company's various issues is picking up on the strength of this prospect. Also, extensive trade agreements may well result in a more beneficent local attitude toward American capital, an especially pertinent factor in the case of a utility. Another point is the extension the company has obtained on its bank indebtedness which, furthermore, is being steadily scaled down.

Merchant Pig Iron

Marginal satellites of the steel industry are the merchant pig iron producers, including such concerns as **Woodward Iron, Sloss-Sheffield** and **Interlake Iron.** These companies convert ore into pig iron, sell it in the open market to small steel makers lacking blast furnace facilities and prosper most when the steel industry is operating near capacity. The recent rise of $2 per ton in pig iron prices means much to them. In the case of Woodward, for example, it is estimated that a variation of $1 in the price of pig means a difference of $1.50 in annual per share earnings. A similar price change affects earnings of the other two companies to the extent of about $5 and 50 cents per share, respectively. However, such gains are by no means realized immediately as sales are made on a forward contract basis of from three to six months.

Copper Import Duty

Whether the present 4 cent levy on copper is an excise tax, adjustable only by act of Congress, or a tariff, subject to revision by executive action, may mean a good deal to **Anaconda** and **Kennecott.** For the proposed trade agreement with Chile, where both these companies own large low-cost mines, may well include concessions with respect to copper if these are possible under the law. However, the matter is not likely to be resolved within the immediate future and domestic producers are making hay meanwhile. Output is being expanded rapidly as it is realized that current mine production will not be available in refined form for some months hence. By the end of the year, production is expected to be running above 85,000 tons a month, well above the previous monthly record of 77,257 tons in August, 1937.

Industrial Highlights

September earnings lifted nine months' net of the domestic **air transport industry** to more than $2,500,000 against a sizable loss a year ago. What with war in Europe, **Eastern Air Lines** (serving Florida) should enjoy a banner season this winter. * * * Dollar sales of the **farm equipment companies** for the fiscal year ending October 31 will probably be the smallest since 1935, reflecting a decline in farm purchasing power. Prospective higher crop prices indicate improvement next year. * * * Heavy order backlogs practically assure maintenance of present high operating level in the **textile industry** over remainder of the year. Earnings outlook is best since 1937 in woolen, cotton and rayon divisions. * * * Despite the 15-day production shutdown in August, third quarter **oil industry** earnings topped those of the second period but nine months profits were probably about 30% below the like 1938 period. No unusual foreign demand for American oil products has developed as yet.

News—Utility Bites Govt!

A refreshing new twist to the long-standing Government-utility melee was forthcoming with a recent memo by the Rural Electrification Admin-

istration complaining of competition on the part of private enterprise in one of its principal areas of activity. The **Washington Water Power Co.**, it seems, has announced a $1,000,000 program of rural line construction, offering "an appealing new rate schedule and extension policy," which will "conflict" with REA projects. 'Taint fair.

Investment Trust Operations

Operating records of most investment trusts are none too rosy, but last quarter's portfolio adjustments of **Lehman Corp.**, which has been among the more successful of the better known trusts, are worth noting. In the first place, the company sold bonds and bought equities during the period. Holdings of Government obligations were reduced from about $15,000,000 to around $4,500,000 while common stock commitments were increased from 55.6% of gross assets on June 30 to 79.8% on September 30. Large switching operations were also carried out in equities. Building, liquor, granger rails and Canadian issues came in for liquidation while heavy increases were apparent in the automotive, chemical, non-ferrous metal, steel, electrical equipment, oil, industrial utility, rail equipment and industrial rail groups.

All Ears

U. S. Steel shipments this quarter are expected to run above 1,000,000 tons a month, best since September, 1937. * * * **Macy's**, adopting installment selling, bows to a trend; store had been losing competitive ground rapidly. * * * Outstanding beneficiaries of War Department ordering in last half of September were **Wright Aeronautical** ($6,963,292 contract), **Winchester Repeating Arms** ($8,710,000), **Bethlehem Steel** ($2,667,924). * * * **Department stores**, with inventories in good shape and consumer buying power trending upward, face good fall season. September sales rose more than seasonally, raising Federal Reserve index to 92 from 89 in August. * * * Tough break: **United Corp.**, readjusting its portfolio in accordance with the Utility Act, disposed of large blocks of **Niagara Hudson Power** and **Columbia Gas** at less than current levels, switching large portion of funds realized to **National Dairy Products** at above current levels.

High-Low Stock Averages

Since publication of "A Key to Market Quality" by Frederick K. Dodge in our issue of September 23, 1939, numerous requests have been received from readers for figures which will enable them to keep up to date the average of 100 low priced stocks and that of 100 high priced stocks, both of which were shown in chart form in the article mentioned. In this issue, therefore, index figures for the weeks ended October 7 and 14 are published on the last page of the *Business Analyst* in the section headed "Magazine of Wall Street Common Stock Index"; similar up to date figures will appear in the same place in each subsequent issue of the Magazine. Latest week for which figures were plotted in the chart was that ended September 2; interim figures are as follows:

Week ended	100 High Priced Stocks	100 Low Priced Stocks
Sept. 9	67.21	63.27
Sept. 16	67.88	65.66
Sept. 23	69.76	66.79
Sept. 30	70.38	64.78

Technical Comment

Some chart readers hold that the market's range since mid-September has been a little too wide to meet the qualifications of a true "line" but that the averages have been working into the apex of a narrow triangle from which a definite break one way or the other would have the same significance as if it had been preceded by a line formation. Tendency of volume to dry up on weakness is favorably regarded.

Corporate Notes of the Fortnight

Safeway Stores' September sales set a new high monthly record. Increased market interest in company's shares is expected after "ham and egg" vote is out of the way in California where many Safeway stores are located.

An operating deficit of $482,000 for Western Union in the first eight months of this year was more than offset by September profits; nine months' operations were in the black as contrasted with a loss of $1,548,000 in the same period of 1938.

New business of Crane Co., which usually lags about a month to six weeks behind an upturn in the steel industry, is beginning to expand. Price situation in the company's principal lines (valves, plumbing supplies, etc.) has shown improvement.

Net income of Abbott Laboratories for the eight months ended August 31 was 20 per cent above a year ago. A similar percentage gain in sales volume was recorded in September.

Late summer rise in sales and earnings of American Radiator is being rapidly extended and prospects point to best domestic sales volume since 1929. However, overseas operations have been disrupted and several of the company's foreign plants converted to the manufacture of munitions.

Pan American Airways has announced a $6,000,000 equipment purchase program to be financed through issue of rights to shareholders. Program is first step in new long range plans to provide 48 hour day and night schedules between the United States and most South American capitals.

Last month's business of Mueller Brass reached unprecedented levels. Net income for the November quarter may reach $200,000 or 75 cents a share.

Third quarter earnings report of National Biscuit will show a decline from last year's level when net amounted to 51 cents a common share. Lower selling prices for a number of leading products are held responsible.

Bookings of U. S. Pipe & Foundry continue at a high rate and it is expected that second half earnings will better the $2 per share reported for the initial six months of 1939.

Utilities Especially Favored By Industrial Expansion

Power Sales to Factories Will Loom Large in Earnings of Some Systems

BY FRANCIS C. FULLERTON

DURING the current upward phase of the bull market public utility common shares have lagged perceptibly behind both industrials and rails. Whereas some of the steel stocks, for instance, have risen approximately 80 per cent, the utilities have remained relatively dormant. Simultaneously sales of electric power have risen appreciably and for the week ended October 7th, the latest available figure, a gain of 14.4 per cent was recorded over the same period a year previously, while in the previous week a new peak for the year of 2,469,689,000 kwh. was reached. This compares with 2,304,032,000 kwh. for the week ended August 21, 1937, the peak in the previous period of great activity in the industry.

It is also interesting to note that in August, 1937, the Dow Jones utility average ranged from a high of 29.76 to a low of 27.23, whereas recently this average stood at 25.05. In order to explain the contradiction of increasing sales on the one hand and low share prices for utility equities on the other one must take into consideration certain popular misconceptions wherein the public hastily, and without examination, jumped to the conclusion that since a war boom may lie ahead the utility companies, faced with somewhat rigid operating factors, would be able to do little better than make both ends meet.

So far as concerns utility companies having a predominately residential load, this is likely to be at least partially true. Those companies, however, largely dependent upon industrial demand, especially on sales to the basic heavy industries, seem likely to have better times ahead of them. It is this group of companies which appears likely to attract the investor desiring an ample dividend return coupled with satisfactory earning power.

Any further substantial increase in the rate of power demand from here on is expected to be largely from the industrial sections of the country. Recent reports, for example, from New England indicate a satisfactory percentage gain over the previous year, and this is largely attributable to the improved activity in textile, boot and shoe as well as other industries in this region. An even more important section so far as industrial sales are concerned is the Central Industrial. Within this territory the major automotive plants in Detroit are located as well as an important part of the steel industry in and around Chicago. Since both steel and automotive activities constitute important elements in the composition of the index of business volume it can be readily appreciated how utility companies in this territory are affected by the current pick-up. In passing it is worth noting that the South has come along rapidly during the present decade, and industrial sales by utilities in certain areas there are becoming an increasingly important factor.

It should not be too much to expect a fairly consistent correlation between the index of industrial activity and the demand for power. Actual experience indicates that this relationship actually works out in practice. Such a development, of course, results in a better than average rate of growth for the revenues of those companies serving industrial communities. The significance of this is especially evident since the

Utilities Having a Large Industrial Load

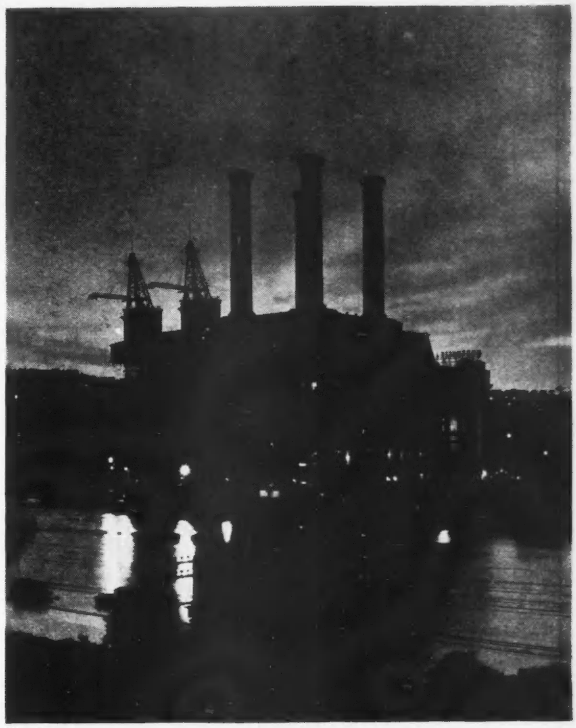
	% of 1937 Electric Revenues from:			% of Electric Generating Capacity	
	Residential Sales	Industrial Sales	Commerical Sales	Steam Plants	Hydro-Plants
American Gas & Electric	26.3	41.6	21.6	90.6	9.4
American Water Works	30.0	48.0	18.0	90.0	10.0
Columbia Gas & Electric	32.9	32.7	20.0	100.0	....
Commonwealth Edison	32.8	29.0	24.0	100.0	....
Commonwealth & Southern	32.0	35.0	27.0	50.0	50.0
Consolidated Edison	32.4	24.4	35.0	100.0	....
Consolidated Gas of Baltimore	29.3	37.0	27.0	(A)	(A)
Detroit Edison	31.1	31.2	30.8	91.0	9.0
National Power & Light	30.1	33.5	24.6	73.0	27.0
Niagara Hudson Power	(B)28.5	36.4	21.8	38.0	62.0
North American	(C)34.0	(C)28.0	(C)27.0	86.0	14.0
Public Service of N. J.	36.4	(d)	(d)	100.0	....
United Gas Improvement	(C)34.0	(C)28.0	(C)24.0	77.0	23.0

(A)—Large percentage of power purchased from affiliated hydro-plants. (B)—Includes sales to agricultural consumers. (C)—Estimated. (d)—Not available.

Federal Reserve Board index of industrial production reached 110 for the month of September.

For the nation as a whole industrial demand in an average year accounts for about 55 per cent of the total power output, while sales for residential use constitute roughly 21 per cent. Commercial concerns use most of the remainder, or about 18 per cent. At a time of improving business, especially that of the heavy industries, utilities feel the immediate effect of any betterment.

Experience during the last World War indicates that despite popular opinion to the contrary net operating revenues of many utilities showed substantial improvement. In 1914 the public utility industry consisted of relatively small operating companies scattered throughout the nation and a company having a gross revenue of more than $5,000,000 was considered among the larger units. Since that time the holding company and the integrated superpower system have become fixtures in the industry and at the same time the marketability of utility securities was increased. Then, too, actual demand from industry has grown rapidly, so that public utilities, especially those with large industrial loads, should fare better than during the 1914-1917 period. Further verification of this is found in the report of the United States Bureau of Census. According to this source the industry supplied 37 per cent of the horsepower used in electric motors in 1914, whereas in 1929 private utility companies supplied 79 per cent. Recent estimates place this figure even higher and range between 80 per cent and 85 per cent.



Gendreau

The Consolidated Edison's Harlem River plant in New York City.

Operating Factors

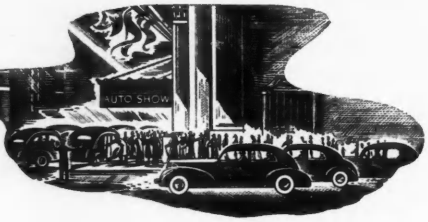
There are certain fixed, or non-variable, cost factors in the operation of public utility properties. Most important among these is taxes. The most casual examination of virtually any utility operating statement of recent years will readily reveal the increase. For the industry as a whole the ratio of taxes to total operating revenue has increased from 9.8 per cent in 1929 to 15.6 per cent in 1938. This, of course, represents a fixed charge more likely to increase than decline over a period of years.

Another non-variable element is depreciation. In the past this has varied according to the individual company. Some units charged off more than enough to retire plants and equipment pending the time they would necessarily be thrown on the junk pile while others did not. As a matter of fact during the 1929-1933 depression quite a large number of companies skimped on this item. Formerly depreciation charges were often based on a percentage of gross revenues, but the new regulations required by both federal and state authorities necessitate a rate of depreciation based on the estimated life of properties involved. The industry on the whole has, however, increased its charges for depreciation during the last nine years, so that whereas 8.1 per cent of gross revenue was charged to depreciation in 1929 some 10.5 per cent was credited to this item in 1938.

Labor is an element that should vary along with industrial conditions, and in the past has always been considered a variable factor in any estimate of costs. With the growth of organized labor, especially since the inauguration of the Congress for Industrial Organization, wages have tended to become somewhat fixed, and in some instances even to precede a rise in commodity prices, whereas in former times they tended to lag and eventually follow rising living costs. Since labor in the utility industry consists largely of maintenance forces, meter readers and clerical help, all of which are required in bad as well as good times, little reduction in costs can be anticipated here.

The two remaining important items that figure in the expense column are fuel and the cost of money. The former tends to vary with the fluctuations in output, so that this item may be classed as a variable factor. On the average this figure runs around 11 per cent of total costs, though companies having a large hydro-electric capacity are naturally in a better position in this regard than are those obtaining their power from steam plants. Then too it is not unusual for contracts with industrial consumers to carry a provision allowing for adjustment of rates in the event of changes in fuel costs.

So far as the cost of money is concerned every major utility company has had ample opportunity during the recent period of easy money to refund any of its outstanding high coupon obligations. As a result a substantial reduction in fixed charges has taken place, which over a period of years should work to the benefit of the common shareholders. Some appreciation of this may be gained by observing that in the year 1933, the high point in actual dollar charges for interest and debt discount by utilities, the ratio (*Please turn to page* **58**)



A STATEMENT *by* GENERAL MOTORS

ONCE again at the automobile shows and at its dealer showrooms in every community throughout the land, the motor car industry is in the process of displaying its new models before the sight and judgment of America.

How well and how widely these cars win favor, is important not only to those who make them, but also to the national economy. For the automobile today is not merely the product of the factory that builds it—it is equally the product of scores of producers and suppliers of raw materials involving the productivity of millions of workers distributed in thousands of places — almost everywhere.

So it is not enough that the new cars represent improvement over yesterday's models. In the general interest they must also represent values so compelling as to stimulate wide-spread buying.

We believe you will find the General Motors cars for 1940 fully meet these requirements.

There is built into them the accumulated experience of an engineering group which, from the very beginning of the industry, has had the ability and courage to pioneer. Originating with the electric self-starter in the early days, down through the years there has come a continuous series of engineering achievements. But that is not all! General Motors technicians have demonstrated their versatility by developing such engineering products as the Diesel locomotive destined to revolutionize transportation by rail, the Allison aviation engine recognized as a most important contribution to aviation engine practice, and in a somewhat different field, tetraethyl lead as a component of gasoline, revolutionizing the relationship of the fuel to the engine, making possible more

CHEVROLET • PONTIAC • OLDSMOBILE • BUICK

power with less weight and with greater efficiency. General Motors is proud of this record of achievement.

But now in 1940 comes something more, and important. A new mechanism to connect the engine with the car has been in evolution for several years. It takes advanced form in 1940 and will be introduced in one of the cars of the General Motors line. The clutch is eliminated. The changes in ratio, or speeds, are automatic. You simply steer! And the cost is astonishingly low for such an achievement. This device is destined to take the transmission out of the driving technique of the car of tomorrow. You certainly will be intrigued when you see and try this interesting mechanism.

But the modern motor car has become not only something in which to go from place to place, but for many something to live in—hence comfort, luxury of appointment, size, are important considerations. General Motors 1940 cars are definitely larger. The seats are wider. There is more room for both passengers and baggage. And in luxury of finish they are far superior to anything that General Motors has been able to accomplish before.

Again, here is something important! In several of the General Motors lines for 1940 there has been added, an extra and special model for those who appreciate the ultra in design attractiveness and luxury. You cannot help being impressed when you see this most modern of all cars. It is different! It is most appealing.

While many items of cost have recently risen, and added value has been built into the 1940 design, selling prices in general have not been raised; in fact, some models list somewhat below the 1939 range. General Motors subscribes, without reservation, to the prime importance, in the face of the existing emergency, of avoiding unwarranted and unjustifiable price advances. Such will be the policy throughout all its extensive relationships. It will avoid to the utmost everything that promotes instability of the economy.

Thus the value of General Motors cars in 1940 is plain to see. But value is relative. It necessarily involves the price you pay and what that price includes. General Motors prices are clearly shown on "plainview" price tags attached to every General Motors car on exhibit in every General Motors showroom. You see the base price the dealer sets on the car you need. You see all the additional items incident to the transaction. And with each sale there is supplied an itemized invoice showing each item separately and its price as a part of the price you pay.

Thus you see the value. Thus you see the price. The result is bound to be a clearer picture of the greater value in these General Motors cars of 1940.

GM

YOU CAN SEE THE VALUE—YOU CAN SEE THE PRICE

Alfred P. Sloan Jr

Chairman

GENERAL MOTORS CORPORATION

LASALLE • CADILLAC

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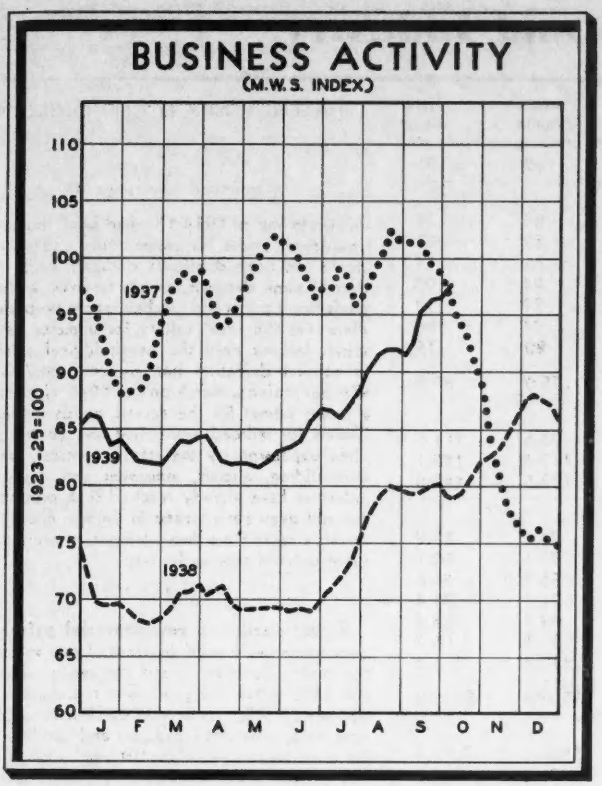

CONCLUSIONS

INDUSTRY—U. S. headed for major recovery, regardless of developments abroad.

TRADE—Department store sales spurt sharply.

COMMODITIES—Recent raw material price reaction mild compared with previous upsurge.

MONEY AND CREDIT—Commercial loans continue to rise. Excess reserves at new high.

The Business Analyst

With all components of our Business Index, save Check Payments and Electric Power output, reporting better than normal seasonal expansion during the past fortnight, the nation's per capitá volume of **Business Activity** has risen to above 97% of the 1923-5 average—the best level since the week ended Sept. 25, 1937. September averaged 95.0 (110, without compensation for population growth), compared with 91.4 in August and 79.8 for September, 1938. Third quarter's average was 91.2, against 83.3 in the second quarter and 77.3 for the third quarter of last year. Barring early peace in Europe, it is a fair guess that **Business Activity** during the fourth quarter will average at least 15% above the closing three months of 1938. If so, 1939 will average nearly 19% better than 1938—about 89, per capita basis; or 102, Federal Reserve basis.

* * *

Business developments for years preceding, and shortly following, the recent outbreak of hostilities between the Allies and Germany compel the conclusion that sudden injection of actual warfare into the picture has served merely to expedite a major industrial recovery which had been incubating ever since the bank closings of 1932. Excesses in inventories, plant capacity and banking credit—inherited from

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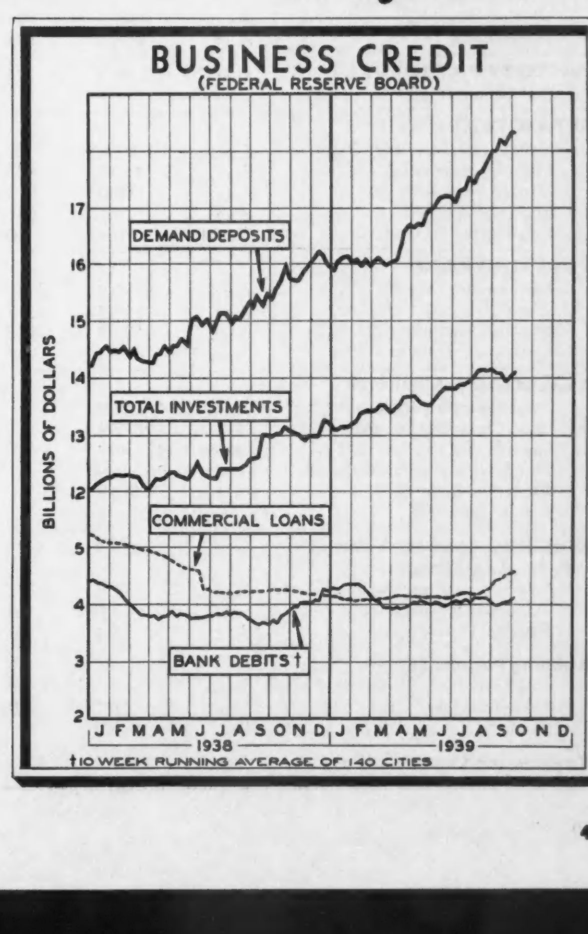


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Sept.	110	102	91
INDEX OF PRODUCTION AND TRADE (b)	Aug.	86	85	78
Production	Aug.	83	82	75
Durable Goods	Aug.	67	63	51
Non-durable Goods	Aug.	94	94	90
Primary Distribution	Aug.	80	79	73
Distribution to Consumers	Aug.	95	94	86
Miscellaneous Services	Aug.	82	80	75
WHOLESALE PRICES (h)	Sept.	78.4(pl)	75.0	87.0
INVENTORIES (n. i. c. b.)				
Raw Materials	July	94.0	94.6	111.6
Semi-Finished Goods	July	111.1	112.4	118.1
Finished Goods	July	110.3	109.5	112.6
COST OF LIVING (d)				
All Items	Aug.	84.5	84.9	85.9
Food	Aug.	76.7	78.1	80.1
Housing	Aug.	86.3	86.3	86.6
Clothing	Aug.	71.9	71.9	73.4
Fuel and Light	Aug.	84.0	83.8	84.4
Sundries	Aug.	96.9	96.9	96.9
Purchasing value of dollar	Aug.	118.3	117.8	116.4
NATIONAL INCOME (cm)†	Aug.	$5,393	$5,494	$5,162
CASH FARM INCOME†				
Farm Marketing	Aug.	$601.0	$534.0	$613.0
Including Gov't Payments	Aug.	643.0	570.0	628.0
Total, First 8 Months	1939	4,594.0	......	4,612.0
Prices Received by Farmers (ee)	Sept.	98	88	95
Prices Paid by Farmers (ee)	Sept.	122	119	121
Ratio: Prices Received to Prices Paid (ee)	Sept.	80	74	79
FACTORY EMPLOYMENT (f)(r)				
Durable Goods	Aug.	95.7	94.8	87.8
Non-durable Goods	Aug.	105.9	105.4	102.1
FACTORY PAYROLLS (f) (not adjusted)	Aug.	89.9	84.4	77.3
RETAIL TRADE				
Department Store Sales (f)	Sept.	92	89	86
Chain Store Sales (g)	Sept.	114.5	113.0	109.0
Variety Store Sales (g)	Aug.	116.0	119.0	109.4
Rural Retail Sales (j)	Aug.	131.1	124.8	120.1
Retail Prices (s) as of	Oct. 1	90.2	89.5	89.0
FOREIGN TRADE				
Merchandise Exports†	Aug.	$250.8	$229.6	$230.8
Cumulative year's total† to	Aug. 31	1,896.3	......	2,049.1
Merchandise Imports†	Aug.	175.8	168.9	165.5
Cumulative year's total† to	Aug. 31	1,439.2	......	1,267.3
RAILROAD EARNINGS				
Total Operating Revenues*	1st 8 mos.	$2,480,962	......	$2,250,992
Total Operating Expenditures*	1st 8 mos.	1,890,328	......	1,783,334
Taxes*	1st 8 mos.	233,178	......	226,096
Net Rwy. Operating Income*	1st 8 mos.	269,349	......	155,039
Operating Ratio %	1st 8 mos.	76.19	......	79.22
Rate of Return %	1st 8 mos.	1.72	......	0.99
BUILDING Contract Awards (k)	Sept.	$323.2	$312.3	$300.9
F. H. A. Mortgages				
Selected for Appraisal†	Sept.	91.7	98.5	98.4
Accepted for Insurance†	Sept.	62.0	62.3	68.3
Premium Paying†	Sept.	53.4	65.1	48.9
Building Permits (c)				
214 Cities†	Sept.	$84.5	$91.8	$77.8
New York City†	Sept.	18.7	26.0	24.0
Total, U. S.†	Sept.	103.2	117.8	101.8
Engineering Contracts (En)†	Sept.	$209.3	$311.2	$289.7

PRESENT POSITION AND OUTLOOK

(Continued from page 49)

the world war of 1914-18—had been thoroughly liquidated; prices for commodities and common stocks had been drastically deflated; while inflation of bank deposits, excess reserves, and high grade bond prices had reached record proportions. Here was the ideal setting for a major upward spiral, lacking only the psychological catalyser to convert defeatism into dynamic confidence. War has stolen a march on the 1940 elections as a pump primer for the capital goods industries. Orders for railroad equipment and contracts for plant expansion by the steel, chemical, textile, shipbuilding, aircraft, armament and explosives industries have already reached such proportions that not even early peace in Europe could conceivably cause more than a temporary pause in the major uptrend now under way.

* * *

Recent reaction in **raw material prices** has been remarkably mild in view of the explosive rise during September, and the average level is still 19% above last year. The most spectacular advance (119%) has been in quicksilver. Coffee, eggs, lard, antimony, crude oil and gasoline—on the other hand—are below last year; while aluminum is unchanged. **Cost of living** is 1.7% lower than a year ago; but **retail prices** are up 1.3%, and **wholesale prices** 2.4%. Manufacturers' **inventories** on Sept. 1 were 7% below last year. **National income paid out** during August totaled $5,393,000,000—a 4.5% increase over last year, compared with an eight-months' gain of 3.8%.

* * *

Department store sales in the week ended Sept. 30 were 14% above last year, compared with a four-weeks' gain of only 6%. For the month of August, producers' sales were 13.6% above last year, while sales by wholesalers increased 6.9%. Merchandise **exports** were up 8.7%, compared with an eight-months' recession of 4.7%, while **imports** rose 5.9%, against an increase of 14% for eight months.

* * *

Carloadings are currently running about 20% above last year, and have recovered to approximately the 1937 peak. For August, **railroad** gross operating revenues were 9.5% above last year, compared with an eight-months' increase of 10.2%, while n. o. i. increased 20%, against 32% for eight months. Net income during August is estimated at 10 millions, compared with 6.6 millions in July, and 1.1 million for August, 1938.

* * *

Building permits granted in August were 22% above last year (including a 34% rise in **residential** permits), compared with a 26% increase for eight months (including a 38% gain for residential permits). Mortgages selected during the week ended Sept. 30 for appraisal by the F H A were 10% above last year in total face value, against a 16% increase for the year to date. Home **building costs** during August averaged 1.1% above last year.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Sept.	4,231	3,763	4,290
Pig Iron Production in tons★	Sept.	2,879	2,660	1,680
Shipments, U. S. Steel in tons★	Sept.	985	804	578
AUTOMOBILES				
Production				
Factory Sales	Aug.	99,868	209,343	90,494
Total 1st 8 Months	1939	2,271,124	......	1,435,280
Retail Sales				
Passenger Cars, U. S. (p)	1st 8 mos.	1,821,043	......	1,251,729
Trucks, U. S. (p)	1st 8 mos.	337,096	......	269,913
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Sept.	330.5	317.0	300.3
Shipments, U. S. & Canada★ (tons)	Sept.	345.6	303.4	304.7
Mill Stocks, U. S. & Canada★ (tons)	Sept.	217.9	232.6	214.5
LIQUOR (Whisky)				
Production, Gals.★	Aug.	4,392	3,711	4,217
Withdrawn, Gals.★	Aug.	5,098	4,343	4,225
Stocks, Gals.★	Aug.	475,371	477,149	469,502
GENERAL				
Machine Tool Orders (n)	Aug.	206.5	230.9	120.9
Railway Equipment Orders (Ry)				
Locomotive	Sept.	52	5	5
Freight Cars	Sept.	24,231	360	1,079
Passenger Cars	Sept.	3	......	11
Cigarette Production†	Aug.	16,571	14,260	15,892
Bituminous Coal Production★ (tons)	Sept.	37,695	34,688	32,286
Boot and Shoe Production Prs.★	Aug.	42,949	33,618	42,252
Portland Cement Shipments★	Aug.	13,804	11,755	11,823
Paperboard, New Orders (st)	Aug.	454,817	382,682	361,323

PRESENT POSITION AND OUTLOOK

Factory sales of **automobiles** during September were 124% above last year (owing largely to the earlier change-over date), compared with a nine-months' increase of only 57%. Retail sales during September were about 42% above last year. Increase during the last ten days of September rose to 53% over last year. Factory output, barring serious labor trouble, is scheduled for 1,240,000 units in the fourth quarter, against 1,013,000 last year.

* * *

More **railroad equipment** has probably been ordered since war was declared than for all of 1938. Orders in September numbered 24,231 freight cars, 52 locomotives and 3 passenger cars; bringing the nine-months' total up to 33,623 freights, 213 locomotives and 177 passengers. Domestic **machine tool orders** in the first half of September were twice as large as for the entire month of August.

* * *

Lumber orders during September were 64% above last year, against a nine-months' gain of only 22%, and were 35% ahead of production in September. Unfilled orders were nearly double the volume of a year ago, while inventories were 7% lower. Though **paperboard** production in September reached a new all time high, unfilled orders increased 155% during the month.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Oct. 7	97.4(pl)	96.7	78.9
ELECTRIC POWER OUTPUT				
K.W.H.†	Oct. 7	2,465	2,470	2,154
TRANSPORTATION				
Carloadings, total	Oct. 7	834,694	834,640	702,616
Grain	Oct. 7	41,182	45,370	42,495
Coal	Oct. 7	171,640	168,957	134,309
Forest Products	Oct. 7	36,824	37,116	31,797
Manufacturing & Miscellaneous	Oct. 7	330,944	329,112	278,230
L. C. L. Mdse	Oct. 7	159,822	162,404	161,564
STEEL PRICES				
Pig Iron $ per ton (m)	Oct. 10	22.61	22.61	20.61
Scrap $ per ton (m)	Oct. 10	22.08	22.50	14.25
Finished c per lb. (m)	Oct. 10	2.236	2.236	2.286
STEEL OPERATIONS				
% of Capacity week ended (m)	Oct. 14	90.0	87.5	51.5
CAPITAL GOODS ACTIVITY (m) week ended	Oct. 7	101.1	95.9	65.1
PETROLEUM				
Average Daily Production bbls.★	Oct. 7	3,436	3,658	3,249
Crude Runs to Stills Avge. bbls.★	Oct. 7	3,505	3,560	3,251
Total Gasoline Stocks bbls.★	Oct. 7	71,152	71,168	69,123
Gas Fuel Oil Stocks, bbls.★	Oct. 7	109,453	110,921	120,405
Crude—Mid-Cont. $ per bbl	Oct. 13	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Oct. 13	1.73	1.73	1.28
Gasoline—Refinery $ per gal	Oct. 13	.06⅞	.06½	.06⅛

PRESENT POSITION AND OUTLOOK

Electric power output holds at about 14% above last year, while expanding to new all time record levels. Expenditures for plant additions are being enlarged.

* * *

At the current **operating rate** of around 90%, the **steel** industry is turning out ingots at the highest annual rate in its history, suitable allowance being made for increases in capacity. Earnings in the fourth quarter will be considerably better than for the third quarter, and will make gratifying comparison with fourth quarter profits last year; though full benefit of the greater volume of output will not be realized; because cost of pig iron and scrap has advanced sharply during the past month, while prices for finished product range from $3 to $10 a ton lower than a year ago. Shortages of pig iron and scrap, normally used in about equal amounts to produce a ton of steel, threaten to assume serious proportions in a prolonged war—a prospect which is causing several important producers to refuse foreign business that would interfere with domestic deliveries.

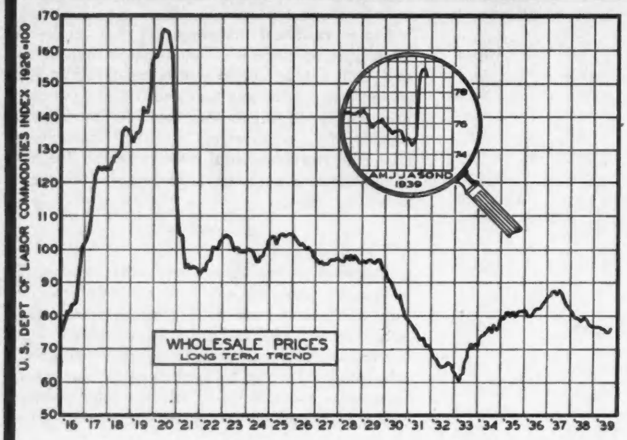
* * *

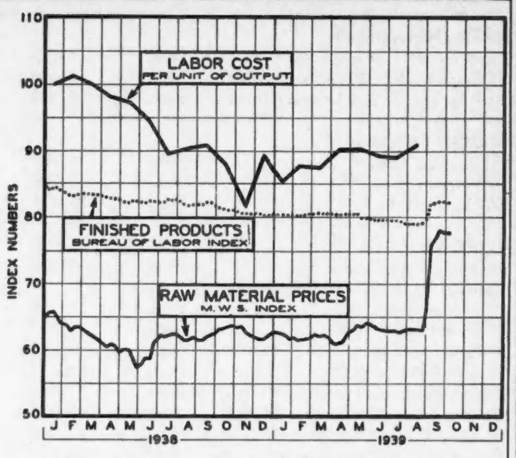
Although **oil** exports to the war zone have declined for the time being, owing to shipping hazards, domestic demand for **gasoline** is running about 6% above last year.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. In. Conf. Bd. 1936—100. (p)—Polk estimates. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

For the first time since mid-August the Bureau of Labor Statistics wholesale commodity price index in the first week of October recorded a decline. The drop, however, was modest and for the most part reflected lower prices for agricultural commodities. The fact that commodity prices have failed to extend appreciably the sharp gains registered in the first week of September, following the outbreak of the war, lends greater support to the possibility that they will continue to hold most of their gains, with only a moderate amount of correction. During the past fortnight, some of the more volatile commodities, where the price movement has been closely identified with war developments, have reacted from their best levels. These include, hides, rubber, sugar, cocoa and grains. Prices of lead, copper and zinc, textiles and petroleum have held their gains. Industrial buyers have turned cautious.





Changes in Major Commodity Price Groups for the fortnight Ended Oct. 7, 1939

Farm Products	66.8	down 2.7	Metals	95.1	down 0.2
Foods	72.9	down 2.2	Building Material	91.8	up 0.8
Hides and Leather	105.2	up 4.2	Chemical	77.9	no change
Textiles	73.8	up 1.5	Housefurnishings	89.1	up 0.3
Fuel and Lighting	74.8	up 0.6	Miscellaneous	77.1	up 0.5

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound closing				
October	Oct. 14	9.14	9.11	7.72
December	Oct. 14	8.84	8.80	8.27
Spot	Oct. 14	9.16	9.16	8.85
(In bales 000's)				
Visible Supply, World	Oct. 13	(X)	(X)	......
Takings, World, wk. end	Oct. 13	(X)	(X)	......
Total Takings, season Aug. 1 to	Oct. 13	(X)	(X)	......
Consumption, U. S.	Sept.	625	628	533
Exports, wk. end	Oct. 13	101	237	119
Total Exports, season Aug. 1 to	Oct. 13	1,123	1,022	825
Government Crop Est. (final)	Oct. 1	11,928	12,380	11,943(ac)
Active Spindles (000's)	Sept.	22,232	22,012	22,184
WHEAT				
Price cents per bu. Chi. closing				
December	Oct. 14	83	81⅛	65⅜
May	Oct. 14	82¼	81	66½
Exports bu. (000's) since July 1 to	Oct. 7	33,449	30,798	46,328
Exports bu. (000's) wk. end	Oct. 7	2,651	3,686	4,222
Visible Supply bu. (000's) as of	Oct. 7	142,078	145,686	124,269
Gov't Crop Est. bu. (000's)	Oct. 1	739,445	736,115	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
December	Oct. 14	49⅝	48¾	44⅜
May	Oct. 14	52	51½	47⅞
Exports bu. (000's) since July 1 to	Oct. 7	1,639	1,006	44,951
Visible Supply bu. (000's) as of	Oct. 7	15,618	14,272	11,521
Gov't Crop Est. bu. (000's)	Oct. 1	2,532,417	2,523,092	2,542,238(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Current prices are a full cent under the best levels reached early in September, but have recently been holding firm despite large scale hedging operations. Most of the trade expected the Government estimate as of Oct. 1 to be some 200,000-300,000 bales higher than the 11,943,000 figure reported. The previous month's estimate placed the crop at 12,380,000 bales, while the actual crop last year totaled 11,943,000 bales. Export shipments continue to make a surprisingly good showing. Exports thus far in the current season are some 40% ahead of the comparable period a year ago. Prices likely to hold.

* * *

Wheat. Prices are now the lowest since the beginning of the war. In fact, wheat prices have experienced an irregular decline since the day after war broke out. The answer, of course, is found in the record breaking supplies of wheat throughout the world indicating scant likelihood of any shortage or pressing demand in the near future. With domestic prices well above world prices, the export subsidy alone is the only reason why any of our wheat at all is being sold abroad.

* * *

Corn. The Government's crop estimate based on Oct. 1 growing conditions indicated a current yield of 9,000,000 bushels more than a month ago, although some 10,000,000 bushels under the 1938 harvest. Trade bearishness forced lower prices and immediate outlook is negative.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Electrolytic, del	Oct. 14	12.50	12.50	11.25
Export f. a. s. N. Y	Oct. 14	12.50	12.50	......
Refined Prod., Domestic (tons)	July	57,339	61,719	35,596
Refined Del., Domestic (tons)	July	59,681	53,573	48,071
Refined Stocks, Domestic (tons)	July 31	316,543	335,017	339,997
Refined Prod., World (tons)	July	158,236	173,205	139,483
Refined Del., World (tons)	July	181,487	180,433	177,580
Refined Stocks, World (tons)	July 31	490,419	513,670	523,196
TIN				
Price cents per lb., N. Y	Oct. 14	55	56	45⅜
Tin Plate, price $ per box	Oct. 14	5.00	5.00	5.00
World Visible Supply† as of	Sept. 30	31,168	26,338	40,544
U. S. Deliveries†	Sept.	5,050	6,295	4,465
U. S. Visible Supply† as of	Sept. 30	13,494	8,967	10,095
LEAD				
Price cents per lb., N. Y	Oct. 14	5.50	5.50	5.10
U. S. Production (tons)	Aug.	39,000	37,021	25,547
U. S. Shipments (tons)	Aug.	45,025	42,636	38,343
Stocks (tons) U. S., as of	Aug. 31	117,985	124,017	142,868
ZINC				
Price cents per lb., St. Louis	Oct. 15	6.50	6.50	5.05
U. S. Production (tons)	Sept.	42,225	40,960	32,328
U. S. Shipments (tons)	Sept.	69,424	49,928	43,582
Stocks (tons) U. S., as of	Sept. 30	95,615	122,814	130,743
SILK				
Price $ per lb. Japan xx crack	Oct. 14	3.14	3.10	1.84½
Mill Dels. U. S. (bales), July 1 to	Sept. 30	96,098	59,229	109,941
Visible Stocks N. Y. (bales) as of	Sept. 30	27,760	25,060	40,711
RAYON (Yarn)				
Price cents per lb	Oct. 14	53.0	53.0	51.0
Consumption	Sept.	32.8	31.3	33.1
Stocks as of (a)	Sept.	13.0	18.9	34.6
WOOL				
Price cents per lb. tops, N. Y	Oct. 14	1.22	1.24	.83½
HIDES				
Price cents per lb. No. 1 Packer	Oct. 14	15.50	15.50	13.00
Visible Stocks (000's) as of	Sept. 1	12,612	12,906	13,349
No. of Mos. Supply as of	Sept. 1	6.8	7.6	7.7
RUBBER				
Price cents per lb	Oct. 14	20.10	19.25	17.16
Imports, U. S.†	Sept.	41,939	38,045	37,374
Consumption, U. S.†	Sept.	50,150	50,481	37,823
Stocks, U. S. as of	Sept.	150,171	161,358	268,094
Tire Production (000's)	Aug.	5,492	4,510	4,038
Tire Shipments (000's)	Aug.	4,919	5,056	3,991
Tire Inventory (000's) as of	Aug.	8,891	8,300	8,217
COCOA				
Price cents per lb. Dec	Oct. 14	5.09	5.07	4.81
Arrivals (thousand bags)	Sept.	202	372	287
Warehouse Stocks (thousand bags)	Oct. 13	1,100	1,137	958
COFFEE				
Price cents per lb. (c)	Oct. 14	7.625	8.00	8.25
Imports, July 1 to (bags 000's)	Sept. 30	2,931	1,868	3,369
U. S. Visible Supply (bags 000's)	Oct. 1	1,460	1,501	1,478
SUGAR				
Price cents per lb.				
Raw	Oct. 14	3.60	3.65	3.10
Refined (Immediate Shipment)	Oct. 14	5.50	5.50	4.75
U. S. Deliveries (000's)	1st 8 mos.	4,240(pl)	......	4,223
U. S. Stocks (000's)* as of (rr)	Aug. 31	734.3(pl)	103.6	742.6

PRESENT POSITION AND OUTLOOK

Copper. Although demand has been considerably lighter during the past two weeks, prices have held firm at 12½ cents. Copper sales in September totaled 184,000 tons, the highest for any month in recent years, and substantially higher than the August figure of 39,000 tons. Statistical position is difficult to appraise in absence of world figures. Stocks are probably higher than at the end of July.

* * *

Tin. International Tin Committee has raised export quotas to 120% of standard, retroactive to July 1, and the highest quota in the history of the committee. The fourth quarter quota was raised 10% to 70%. Domestic spot prices have eased to 55 cents. Tin plate operations are at 90% of capacity.

* * *

Lead. Prices unchanged and buying continues at the rate of about 10,000 tons weekly. The trade believes that most of the lead being bought is going directly into consumption and does not represent speculative purchasing.

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Zinc. September statistics were surprisingly good. Domestic stocks decreased 27,199 tons to the lowest level since January 1938. Like copper, however, recent buying has been on a much reduced scale and most consumers are probably well provided for, at least for the time being.

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Silk. December futures are within one cent of their September high, having recovered easily from their previous reaction. Advance in hosiery prices has now become general.

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Rayon. Trade circles believe that rayon prices may be advanced about 5 cents a pound around November 1. Mill inventories are somewhat larger but consumption is holding up well in relation to production.

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Hides. Hides are a war commodity and the recent moderate reaction in prices reflects the general doubt as to the duration of European hostilities. Shoe production is rising, leather production is heavy and unfilled orders larger. An active war would mean sharply higher prices.

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Rubber. Prices characteristically have dropped with decline in the stock market and the lessening of war fever. Consumption prospects, on the basis of the optimistic outlook for the motor industry, are reassuring. Fourth quarter quotas have been raised o 75%.

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Cocoa. Cocoa prices have also been sensitive to peace rumors. Prices are now about where they were at the beginning of the year. Warehouse stocks are about 350,000 bags under their recent high and only 100,000 bags above a year ago.

* * *

Sugar. Cuban sugar tariff has been increased from 90 cents per hundred pounds to $1.50. Prices of raw sugar have reacted from their early September highs. Refined prices are firm at 5.50 cents. The country is now in the process of using up the large supplies of refined accumulated at the outset of the war, with the result that refiners are inactive and demand for raws is quiet.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. (X)—No foreign statistics allowed to be sent from abroad because of war conditions.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Oct. 13	1¼%	1¼%	1¼%
Prime Commercial Paper	Oct. 13	⅝-1%	⅝-1%	⅝-1%
Call Money	Oct. 13	1%	1%	1%
Re-discount Rate, N. Y.	Oct. 13	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Sept. 30	2,628	2,745	2,279
Cumulative year's total to	Sept. 30	93,858	......	87,318
Bank Clearings, N. Y.	Sept. 30	3,145	3,259	3,343
Cumulative year's total to	Sept. 30	133,516	......	134,897
F. R. Member Banks				
Loans and Investments	Oct. 4	22,500	22,419	21,189
Commercial, Agr., Ind. Loans	Oct. 4	4,251	4,229	3,889
Brokers Loans	Oct. 4	538	533	631
Invest. in U. S. Gov'ts	Oct. 4	8,503	8,437	8,055
Invest in Gov't Gtd. Securities	Oct. 4	2,240	2,232	1,679
Other Securities	Oct. 4	3,382	3,400	3,215
Demand Deposits	Oct. 4	18,306	18,333	15,396
Time Deposits	Oct. 4	5,236	5,231	5,175
New York City Member Banks				
Total Loans and Invest	Oct. 11	8,508	8,525	7,799
Comm's, Ind. and Agr. Loans	Oct. 11	1,665	1,655	1,454
Brokers Loans	Oct. 11	411	412	513
Invest. U. S. Gov'ts	Oct. 11	3,285	3,280	2,891
Invest. in Gov't Gtd. Securities	Oct. 11	1,125	1,128	800
Other Securities	Oct. 11	1,217	1,242	1,183
Demand Deposits	Oct. 11	8,214	8,210	6,597
Time Deposits	Oct. 11	657	654	622
Federal Reserve Banks				
Member Bank Reserve Balance	Oct. 11	11,739	11,672	8,400
Money in Circulation	Oct. 11	7,346	7,309	6,667
Gold Stock	Oct. 11	16,973	16,958	13,854
Treasury Currency	Oct. 11	2,924	2,920	2,744
Treasury Cash	Oct. 11	2,238	2,250	3,812
Excess Reserves	Oct. 11	5,400	5,360	3,050

NEW FINANCING (millions of $)		Latest Month	Last Month	Year Ago
Corporate	Sept.	90.2	340.7	150.1
New Capital	Sept.	16.0	25.4	85.0
Refunding	Sept.	74.2	315.3	65.1

PRESENT POSITION AND OUTLOOK

COMMENT

One of the most significant monetary developments of the past fortnight was the receipt of **gold** imports from Norway and Italy. Italy formerly sold gold in Paris, but since Italy and France became embroiled over the Ethiopian affair Italy has been shipping gold to Switzerland. Since the war, however, Switzerland has been unwilling to accept additional gold and has in fact been exporting gold to the United States, concerned apparently over the possibility of a German invasion. Exchange regulations in England have the effect of eliminating London as a market for gold, leaving the United States the single country where capital movements are not circumscribed. The gold shipment by Norway probably reflects the desire to place gold in the United States for safekeeping, thus following the suit of Sweden.

* * *

The latest weekly statement of the **New York City member banks** revealed the twelfth consecutive weekly increase in loans to commerce, industry and agriculture. Since July 19, business loans have risen $260,000,000 and are now at the highest figure since March 16, 1938. Recent gains reflect not only seasonal influences, but the more liberal inventory policies initiated by business in the first weeks of the war. On the other hand, loans to brokers and security dealers continue to decline. The upturn in the market since August 31 has been achieved virtually on a cash basis and with the use of bank credit on a scale smaller than at any time in recent years.

* * *

Despite the **Federal Reserve** policy of permitting maturing bills to run off without replacement, the effects of the heavy supporting operations in the government bond market early in September are still apparent in the reserve position. Excess reserves in the latest week rose $40,000,000 to $5,400,000,000, a new high.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues	(1925 Close—100)	1939 Indexes High	Low	Oct. 7	Oct. 14
316	COMBINED AVERAGE	73.1	50.7	69.3	69.5
5	Agricultural Implements	119.9	81.4	110.1	110.6
6	Amusements	43.2	26.8	29.3	29.9
16	Automobile Accessories	92.3	55.2	84.7	84.2
12	Automobiles	12.8	8.1	11.5	11.7
11	Aviation (1927 Cl.—100)	182.7	128.2	164.9	169.4
3	Baking (1926 Cl.—100)	15.4	11.5	12.3	12.4
3	Business Machines	183.9	114.0	125.0	125.2
9	Chemicals	187.2	123.7	171.8	177.4
20	Construction	47.5	27.7	34.6	34.5
5	Containers	242.6	165.0	226.6	224.1
9	Copper & Brass	124.4	71.2	112.0	113.5
2	Dairy Products	32.1	23.6	29.8	29.7
8	Department Stores	23.9	16.5	21.8	22.0
7	Drugs & Toilet Articles	53.5	40.4	46.1	46.3
2	Finance Companies	312.0	219.4	258.3	263.9
7	Food Brands	103.3	69.1	95.4	94.0
3	Food Stores	48.4	33.3	43.2	43.9
4	Furniture & Floor Covering	72.1	47.1	54.8	55.2
3	Gold Mining	1301.2	884.6	928.6	933.5
6	Investment Trusts	28.1	19.2	25.9	25.2
4	Liquor (1932 Cl.—100)	193.1	133.0	154.5	151.0
9	Machinery	129.0	83.3	117.5	120.2

No. of Issues	(Nov. 14, 1936 close—100)	1939 Indexes High	Low	Oct. 7	Oct. 14
100	HIGH PRICED STOCKS	72.77	53.58	68.58	68.64
100	LOW PRICED STOCKS	66.79	44.98	63.32	63.60
2	Mail Order	90.5	69.2	88.0	88.1
4	Meat Packing	65.4	41.5	58.8	58.7
14	Metals (non-Ferrous)	192.9	122.0	177.9	177.6
2	Paper	13.9	7.5	12.8	12.8
24	Petroleum	101.0	74.3	95.0	95.9
18	Public Utilities	62.6	44.9	56.5	55.9
4	Radio (1927 Cl.—100)	17.0	10.0	11.6	12.2
9	Railroad Equipment	65.1	33.7	60.4	60.8
22	Railroads	20.5	10.9	18.8	18.4
2	Realty	7.9	2.6	3.0	3.0
2	Shipbuilding	82.7	45.1	74.4	75.0
13	Steel & Iron	105.6	60.4	98.7	99.0
2	Sugar	39.0	13.3	31.5	30.6
2	Sulphur	176.3	113.0	168.2	169.9
3	Telephone & Telegraph	53.2	40.3	50.8	50.9
4	Textiles	62.4	27.4	56.4	57.5
4	Tires & Rubber	20.0	13.0	16.7	16.7
4	Tobacco	86.5	76.2	78.4	79.3
4	Traction	39.1	21.9	31.8	31.3
4	Variety Stores	244.4	189.3	230.6	231.7
20	Unclassified (1938—*100)	112.0	73.1	106.2	106.0

H—New HIGH since 1937. h—New High this year. y—New HIGH since 1934. x—New LOW since 1933. *—Close.

Answers to Inquiries

The Personal Service Department of The Magazine of Wall Street will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Curtiss Wright Corp.

What is the current proportion of foreign war-plane orders to total domestic business on Curtiss Wright's books? Has the company developed facilities to produce its own heavy backlog or must it let out substantial contracts to other plants? How will this affect profit margins? I hold 300 common shares at 10½. Do you counsel holding?—J. C. W., Montreal, Canada.

The well entrenched position of Curtiss Wright Corp., in the aircraft manufacturing industry would seem to assure it of getting its full share of forthcoming business, and unfilled orders, which were recently stated to be at about $47,000,000, would seem to bear out such a point. The engines manufactured by this concern account for more than half of total sales, and are the most profitable activity. Second, of course, is the manufacture of all types of military aircraft. About half of the company's orders are from the United States Government, the balance being mostly foreign military orders, on which there is a more satisfactory margin of profit. Profits largely depend on volume, and attainment of large scale production in recent years has permitted ready absorption of development and engineering expenses. The trend of earnings over past years has been upward, and the company reported for the first half of 1939 earnings on the common stock equivalent to 30 cents a share, which compare with 14 cents per share in the corresponding period of last year. Though second half volume and net may show some decline from the first half, full year earnings are expected to be well above the 17 cents per share reported on the common stock last year. Finances are in good shape, but dividends are not likely to be initiated on the common stock over the near term, as it is likely that the management will prefer to build up working capital position as much as possible in order to take care of prospective business. Recently, there was some discussion among some of the aviation companies relative to letting out contracts to automobile manufacturers, but nothing definite in that direction has as yet developed. Failure of Congress to repeal or modify the Neutrality Act may have a temporarily depressing effect on the market price of this issue, but it is believed that the longer term growth possibilities of the aviation industry and this company's position in it give the common stock a certain amount of speculative appeal, in spite of the heavy share capitalization. Retention of your present holdings is advised in the belief that this course will prove profitable over future months.

Crown Cork & Seal

Has Crown Cork & Seal's entry into the can and glass container fields been profitable? I hold 100 shares of the common at 40. What are the chances of the stock appreciating to this level—now around 27? Should I hold, switch or add to my present holdings?—B. M. B., Grand Rapids, Mich.

Since the entry of this concern into the can and container manufacturing fields in 1936, earnings have shown a declining tendency, dropping from $4.02 in 1935 to $1.37 in 1938. For the first half of the current year, earnings were equivalent to $1.05 per share, which compared with $1.26 per share in the first half of last year, but it is noteworthy that the second quarter showed a reversal of the downward trend, earnings for that period being equal to 92 cents per share, which compared with 44 cents per share in the similar term last year. The bottle caps and other closures manufactured by this company, and the necessary machinery and equipment, have wide outlets among brewers, dairies, manufacturers of soft drinks and various pharmaceutical and cosmetic products, and together with various cork specialties, such as cork insulation, sheets, blocks, etc., account for the

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bulk of earnings at the present time. Consequently, it is believed that the upward trend in earnings will be resumed as soon as the glass and metal container division can operate on more profitable basis. Since it was reliably stated recently that all divisions of the company were reporting profits, this upward trend of earnings becomes a possibility over the not too distant future. Volume is, of course, the chief determinant of earnings, and it is expected that sales will be at greater levels over the coming months. Financial position, according to the latest balance sheet available, was quite satisfactory, cash alone being well in excess of current liabilities. Dividends in the past have been conservative in relation to earnings, but future disbursements will doubtless have to await a definite reversal of the downward trend of earnings witnessed over the last few years. However, the outlook for earnings over the intermediate term is improved and it would not seem that current quotations fully discount this expected betterment. We believe, therefore, that retention of your holdings at this time is advisable, but we would not counsel additional purchases until a better estimate of the concern's container division's possibilities can be made.

Congoleum-Nairn Co., Inc.

Despite announcement of first half earnings almost three times greater than the same 1938 period, Congoleum-Nairn shares do not seem to reflect this and the general business optimism. Having 225 shares at 38, I would like your advice as to whether I should continue to hold or switch. Has the war affected material prices?—D. V. T., Schenectady, N. Y.

Congoleum-Nairn has had a good record of earnings during the past years, and the concern was able to show a profit even during the worst of the depression. The company is a leading manufacturer of felt base floor coverings and linoleum, and also has produced in recent years a wall linoleum, which has proven attractive because of the low price at which it is sold. Extensive advertising has resulted in its products being highly regarded by the public. The greater part of sales are for replacement purposes, and thus profits are dependent to a large extent on consumer purchasing power. Labor costs are relatively small, such materials as cork and linseed oil accounting for most of production costs. As a result of the war, prices for these materials have risen and costs will be somewhat higher as a result. It is likely, however, that these can be passed along to customers in the form of higher prices. Finances of the organization are quite strong, the balance sheet as of June 30, 1938, disclosing current assets of $14,931,248, including cash and Government securities of $6,012,690, as contrasted with current liabilities of $1,087,981. Earnings have shown considerable improvement, being equal to 74 cents per share in the first half of the current year as against 25 cents per share for the simlar term last year. Present dividends of 25 cents per share quarterly are likely to continue, and in view of the strong financial position of this company, more liberal dividends can be expected on any increases in earnings. With higher levels of employment and consumer purchasing power, earnings over the coming months are expected to be at even more satisfactory levels. At present prices, the issue returns a reasonable yield, and has good possibilities for at least moderate appreciation over the coming months. Under these conditions, we believe that retention will prove worthwhile.

Carrier Corp.

Do you advise holding 150 shares of Carrier bought at 31½? Have been encouraged by recent earnings increase but wonder whether pace of the company's progress is rapid enough to warrant expectations of an early price improvement. What proportion of present sales are industrial installations?—T. N. W., Boston, Mass.

Carrier Corp. is, as you know, one of the foremost companies engaged in the manufacture and installation of air-cooling, air-heating and air-handling equipment, with the bulk of installation being for industrial concerns. The largest markets are office buildings, stores, railroad cars, restaurants, theatres and hospitals. The next highest in point of sales are those industries where manufacturing processes necessitate or would be helped by control of humidity and temperature, such as the rubber, oil, textiles, explosives and chemical industries. The third largest market is air-conditioning for homes. The company is expanding its line of appliances for home air-conditioning, having recently entered the home heating business with a complete line of oil, gas and coal burners. Competition here, however, is keen and the company must compete for available business with such strong and firmly entrenched corporations as General Electric, American Radiator & Standard Sanitary and Chrysler. It is plain, therefore, that profits will depend mainly on rates of activity in the heavy industries and installations of a large scale nature. Earnings have already recovered somewhat, being equivalent to 35 cents per share for the first half of 1939, which compares with a deficit of 85 cents a share in the corresponding period of last year. Finances are relatively satisfactory, the latest balance sheet disclosing current assets of $4,385,432, of which cash amounted to $1,430,031, which compared with current liabilities of $1,161,260. Usually, second half operations are less profitable than those for the first half, but better business conditions this year should result in sales at levels sufficient to enable the company to report earnings at least equal to first half results. No divdends have as yet been paid on the common stock, and it is not believed that disbursements are a near term probability. However, growth possibilities in this industry are promising and the position of the subject concern leads us to believe that it will obtain its full share of business in the future. Accordingly, we believe that longer term retention of your holdings is advisable.

International Nickel Co.

To what extent would proposed Canadian tax increases affect International Nickel's earnings? Also, what about price decrees? Do these factors make it advisable to switch out of 150 shares bought at 58 or do you feel the shares should be held.—J. L., Nashville, Tenn.

International Nickel Co. ranks as the world leader in the production of nickel and platinum as well as being the fourth largest producer of copper. Earnings however, depend primarily upon nickel sales. The management is aggressive and constantly striving to find new outlets for their products. With the exception of 1932 when a loss of only 14 cents per common share was reported operations have remained at profitable levels throughout the trying depression years. Net last

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Vanadium—American Metal

(*Continued from page 35*)

important factor in the making of armor plate, as already mentioned, it is also used in steel prepared for the machine tool trades and some specialty steels. The special quality this metal imparts to steel is toughness and hardness. Industries using steels having a vanadium alloy include in addition to the automotive, which as a matter of fact constitutes the most important single outlet, agriculture, railroads, petroleum and construction.

During the first seven months of this year the pound sterling averaged around \$4.68. Only in August it started to decline and averaged for that month \$4.61 and for September the average price dropped further to \$3.99. The decline in American Metal shares might be said to have begun to reflect this situation as far back as the month of March in which period it broke the 30 level for the first time this year.

While the common stock was having its largest decline earnings were actually increasing. In the quarter ended March 31, 1939, net income amounted to only \$14,654, or the equivalent of a loss of \$0.07 per common share. This was in decided contrast to a net profit of \$529,891, or \$0.35 per share in the first three months of 1938. However, substantial improvement was shown in the second quarter of this year, when net income amounted to \$520,263, equal to \$0.34 on the outstanding common against \$383,049, or \$0.23 in the same period of 1938. Therefore it is clearly evident that the improvement in earnings during the second three months of this year was the result of more satisfactory business conditions for the company in this period, while the simultaneous decline in the stock was apparently caused by anticipation of more fundamental, though less satisfactory, conditions.

Earnings of Vanadium Corporation are affected by the usual cyclical influences, and vary largely in accordance with the fluctuations of business generally. As already indicated earnings improvement might easily keep pace with activity in the automotive industry, or in other

words that of the light steel companies that find the automobile industry among their best customers. It is not surprising, therefore, to find the most recent period of really satisfactory earnings in the year 1937, when $2.22 per share was reported on the common.

Present indications point to another satisfactory year for Vanadium. Net income for the six months ended June 30th totaled $380,095, or the equivalent of $1.01 per share. This contrasts with a deficit of $5,794, or a loss of $0.02 per share, in the corresponding part of 1938. The high rate of operations in the steel industry indicate that the final six months should be entirely satisfactory for the company.

In summary the future of American Metal stock appears tied closely to the future of sterling, to British war taxes and to possible liquidation of British holdings. On the other hand earnings of Vanadium seem likely to be influenced by domestic business considerations more than by any other single factor and earnings this year may quite possibly top those of the good year 1937.

General Foods

(*Continued from page* 33)

such growth is not spectacular and were it not for one exception the whole merit of General Foods would rest on its ability to show relatively steady profits right through difficult periods. This exception promises to become a major factor in earnings and carry the concern forward to an unrivaled position in the packaged food industry. It is Bird's Eye Frosted Foods.

Back in 1929 just before the storm broke, General Foods invested about 140,000 shares of its stock in what seemed to be a frank speculation with wonderful possibilities in an entirely unexploited field of the food business. The idea was to freeze fruits, vegetables, meats, and fish at a terrific speed and thus literally seal in their freshness. Speed is essential because slow freezing allows ice crystals to form that destroy the cells of the produce and ruin the taste and food value. A worse possible time at which to bring out the new product could not have been selected. The $1,000 cost of the low temperature sales cabinet was beyond the reach of the small storekeeper, and the public was in no mood to welcome minor luxuries. Operations were carried at a loss until 1936, but constant improvements in methods and reductions in costs finally brought the division into the black.

The general gain in volume for the company thus far this year is good, and current operations are on a two-shift basis in an attempt to meet the sudden flood of orders that poured in when the commodity markets rose. Storekeepers had allowed their inventories to drop dangerously low, and are now trying to reverse their position. The company has been forced actually to ration its production among the 440,000 stores that it serves. Estimates for the full year point to earnings of better than $3 per share and make an extra dividend over the usual $2 rate likely.

Anglo-French Needs and Our Capacity to Fill Them

(*Continued from page* 15)

man armies, and when all of Belgium and Belgian seaports were held by the soldiers of the Reich. France has often been misjudged or judged harshly by those who do not take the pains to examine closely the country's status. Objective study of the situation in France and the inherent characteristics of the French people will reveal the astonishing resilience and the magnitude of the true reserves of the country and its people.

The views presented above and the data presented in the accompanying tables should convince the sincere student of economic affairs that conditions in Great Britain and France are distinctly different from those which existed in 1914; and that due to industrial expansion at home and the impressive development of the Colonies as a source of supply, the dependence of the Anglo-French alliance upon the rest of the world and the United States in particular is not nearly so marked as it was a quarter of a century ago. To be sure, British and French buying in the United States will not cease. On the contrary, it is bound to increase, especially if the present war should be protracted, but it would be erroneous to assume that a spectacular boom can or will be created in American industry or agriculture solely or largely because of the present conflagration across the Atlantic.

Utilities Especially Favored by Industrial Expansion

(*Continued from page* 45)

of interest charges to total operating revenue, stood at 17.7%, whereas by 1938 this figure was reduced to 13.2%. This trend has worked definitely in the interest of the common stockholders.

Taking all of these factors together it would seem that those companies in a position to realize a more than average gain in operating revenues as a result of improved industrial activity are likely to show highly satisfactory earnings during the coming months. While such elements as taxes and wages are not in the satisfactory position existing prior to 1914 these adverse factors are to a certain extent at least offset by favorable ones. One of these is the longer life and increased efficiency of power equipment, which may be the chief element overlooked by government officials in their views regarding the potential capacity of the industry. Lower interest charges are also likely to work out favorably in making available additional earnings to common stockholders in the years immediately ahead. In addition the efficient utilization of coal has led to substantial savings.

Further improvement in the political outlook for utilities appears likely. In the first place the Administration, along with the nation as a whole, has indicated that it believes the economy should be placed on an efficient basis ready for any emergency. In view of existent world conditions this appears sound. To accomplish this program Washington has shown itself desirous of an assured and adequate generating capacity for the country. While opinions differ between utility executives and the Administration as to just what is meant by adequate capacity there is little question that sound financial policy would require that any raising of additional funds in the future must come largely through

sale of common stock. In order to accomplish this rates cannot be reduced beyond a certain point, while a spirit of cooperation must be developed between such Federal bureaus as the S E C, and the Federal Power Commission and the private utility companies. Thus a new policy would appear to be in the making, which in turn should work toward the amelioration of utility ailments. Briefly this spells a conservative attitude by Washington authorities for new money cannot be attracted in any other manner.

Demand for Paper Improving in All Divisions

(*Continued from page 38*)

Despite diversified activities output is largely dependent upon consumers industries, and with heavy plant investment it is necessary to keep opertions at as high a rate as possible. Hence any slackening in demand often leads to reduced prices both for kraft products as well as newsprint.

Company was recapitalized in 1937 and arrears on its old preferred stock were settled at that time, though payments on the new preferred shares were omitted late in the same year. Consequently earnings on the common have been nonexistent. For the six months ended June 30, 1939, the deficit on the 1,-823,270 shares of common amounted to $1.22 compared with a loss of $1.65 in the same part of 1938.

North American Aviation

(*Continued from page 25*)

this phase of activities for the immediate future at least. Demand is likely to come from three fairly distinct sources. First and most important at the present time, it consists of orders from belligerent nations. The future of these potential orders is, of course, closely tied-up with the proposed repeal of the arms embargo now pending in the United States Senate. Unquestionably repeal of this law would not only mean a tremendous amount of business for this and other companies, but it should in the long run do much to embrace, and even lower the cost, of Uncle Sam's own armament program. The reason for this statement is that a large volume of orders has the effect of reducing costs and hence lowers prices. The second important source for orders, and one that should not be overlooked, is from the neutral nations such as Holland, Belgium, Turkey and the Scandinavian countries. Thirdly, additional orders for the United States Air Corps are not unlikely with the possibility that further appropriations will be made soon, bringing the force up to the authorized 6,000 planes. It is estimated that the present procurement program calls for around 5,500 units. Thus a possible additional 500 planes may be required in the not distant future.

Conjectures have varied as to possible earnings this year with some estimates placing sales at $28,000,000 against $10,062,346 for 1938, while net income is estimated at better than $5,000,000, or around $1.75 per share. With assurances that the embargo on aircraft will be repealed, and at this writing this seems probable, the outlook for North American will be very favorable indeed.

Answers to Inquiries

(Continued from page 56)

year was equivalent to $2.09 per common share down from $3.32 in 1937. The current 50 cents quarterly divdend rate is considered secure at this time. Finances are strong and as of June 30th last current assets of around $81,000,000 which included cash or the equivalent of about $40,000,000 exceeded current liabilities by approximately $66,000,000. Reflecting industrial improvement in this country and war preparations abroad, earnings in the first half of the current year rose to the equal of $1.15 a share from $1.08 the year before. Sales and earnings should continue to expand satisfactorily as a result of the war in Europe and increasing demand for nickel in this country. Under the proposed surtax law now under discussion by the Canadian parliament, the company would have two alternatives, the more favorable of which provides for the levying of a 50% excess profit tax on all profits above the average for the four years ended December 31, 1938. During that interval earnings averaged $2.45 a share. Limitations placed by the British Government on copper produced within the Empire is of little consequence to the earnings outlook. Nickel prices have remained unchanged at 35 cents a pound since 1926. At this time it is believed that no action will be taken by the British or Canadian governments that would result in a change in nickel prices. In spite of uncertainties concerning the Canadian tax situation, it should be noted that current earnings have supported materially higher prices for the shares and we see no reason why present speculative holdings should be disturbed.

P. Lorillard Co.

Please appraise P. Lorillard Co. common. Am holding 200 shares at 23⅝. Have heard that scrap tobacco and 10-cent cigarette sales have risen sharply. How do present profit margins compare with last year's? Are state taxes on cigarettes continuing to affect sales? —Mrs. P. L. B., Hot Springs, Ark.

Earnings of P. Lorillard Co. have been relatively stable in recent years, ranging between a low of $1.15 per common share in 1934 and a high of $1.78 a share in 1938. The regular 30-cent quarterly divdend payment may be supplemented by an extra at the year-end. The concern is strong financially, as was evidenced by the balance sheet of December 31, 1938, (latest available) when current assets, including cash and its equivalent of about $6,600,000, amounted to $49,946,975, while current liabilities totaled only $2,079,681. The concern is active in all phases of the tobacco industry, except snuff. Its output is thus more varied than that of other leading concerns in the field. Brands sold include Sensation, Dieties, and Old Gold cigarettes, Friends, Briggs and Union Leader smoking tobaccos, a line of cigars selling at 10 cents or under, and Beechnut and Bag Pipe scrap tobaccos. Indications of increased consumption of roll-your-own cigarettes, which are made from scrap tobacco, and greater demand for the so-called 10-cent cigarettes, brought about largely by additional state taxes on cigarettes, are currently in evidence. This company is particularly well situated to benefit from such a trend. Should rising employment result in increasing demand for the more popular brands, Old Gold sales would probably record expansion. As a result of moderately lower tobacco costs and increased cigarette production and their beneficial effects on profit margins, earnings this year should continue their upward trend. Prices for the current tobacco crops are sharply under 1938 levels and may well be of considerable importance to 1940 profits. The shares are attractive for those primarily interested in income. Retention on this basis is counselled.

Commercial Solvents

Is Commercial Solvents Corp. a so-called war beneficiary, either directly or indirectly? Have been holding 150 shares bought at 17¾ and had hoped that the recent upturn in chemical stocks would be shared by Commercial Solvents. What do you advise? Do you think the shares will appreciate to levels at which I bought.—P. C. F., New Canaan, Conn.

Commercial Solvents Corp. is largely a producer of industrial solvents, such as butyl and ethyl alcohol, acetone, and methanol, which are used extensively in the automobile, rayon, furniture, paper, rubber and artificial silk industries, as well as in the manufacture of anti-freeze liquids. A certain amount of whiskey is distilled and sold to rectifiers. Grain alcohol is sold largely to the liquor trade. An active research department is maintained and new products are constantly being introduced, the most recent of which is nitro-paraffins, an improved lacquer base capable of being used in a wide variety of products. Price levels of corn and molasses, the two chief raw materials used, have an important bearing on earnings. Because of low profit margins and increasingly keen competition, earnings have trended irregularly downward since 1929. A loss of 11 cents per common share was reported in 1938, as compared with actual earnings of 60 cents a share in 1937. Early resumption of dividend payments is not foreseen at this time. A sound financial position has been maintained and at last accounts (December 31, 1938) current assets, including cash of around $2,700,000, amounted to $15.708,555, while current liabilities totaled only $1,992,229. Reflecting higher levels of industrial activity, earnings in the first six months of the current year expanded rather sharply to the equivalent of 17 cents a share, from a loss of 14 cents a share twelve months earlier. Prices of alcohol have been advanced, with resultant beneficial effect on profit margins. Demand for solvents and related products should continue upward in line with better operating levels for industry in general. Consequently, further earnings gains would appear in prospect. The concern is not apt to participate directly in war orders but indirect benefits likely will accrue. The stock is quite speculative, but would appear to possess sufficient appeal at this time to warrent its continued retention.

R. J. Reynolds Tobacco Co.

I understand that sales of Camels have been climbing for the last few months, reversing an earlier decline. To what extent has this improvement been reflected in current earnings? I have 200 "B" shares at 50. Do you advise averaging down at current levels of around 36?—Dr. C. W. E., St. Paul, Minn.

The well-known R. J. Reynolds Tobacco Co. has as its leading products, the popular Camel cigarette and the equally well regarded Prince Albert Smoking tobacco. Profits are

largely dependent upon the cost of leaf tobacco and the trend of consumer purchasing power. Operations have remained consistently profitable over a long period of years, with earnings last year being equal to $2.37 per common share, as against $2.82 a share in 1937. Working capital position continues characteristically strong. $2.90 a share in dividends were paid last year and payments liberal in relation to earnings should continue. Favorable effects of moderately lower tobacco costs this year have been offset to some extent by increased operating costs. Sales of Camels which have been more or less declining for the past several years are said to have reversed the trend and scored gains in recent months. The improvement can probably be attributed to the effectiveness of the present advertising campaign, stressing the slow burning quality of the cigarette. Departing from its usual practice a six months' earnings report was recently issued, which showed results of $1.15 a share, a figure said to be somewhat above year earlier levels. Total cigarette production was about 5% above 1938 figures in the eight months through August 31, last, which compares with a gain of only 0.64% in the full year 1938. Shifts in consumer preferences to roll your own cigarette and cheaper brands, as a result of additional State taxes, should in time be nullified to some extent by better employment conditions. 1939 earnings of Reynolds should be somewhat above 1938 results. The outlook for 1940 has been improved by the much lower prices for tobacco recently in evidence. The shares can be held on a strictly income basis. As regards averaging, that will depend to a considerable extent upon the relationship present holdings bear to total investment funds.

How to Invest Wisely in This Upset World

(*Continued from page 23*)

been prepared. The bonds appraised by any conventional standard are entitled to a sound investment rating. All of them are selling below their call prices and afford a better than average return in relation to their investment standing. The preferred stocks, although selected primarily on the basis of their attractiveness from the standpoint of current yield, are seasoned issues with a background which offers ample basis for confidence in the continued security of dividend payments. The common stocks included in this list are for the most part the "storm cellar" type—issues with a good record of sustained earnings and dividend payments and which are currently attractive to the in-

Forthcoming Dividend Meetings

Company	Time	Date
Adams-Millis	11:00	1/ 8
American Tel. & Tel	12:00	11/15
Bayuk Cigars Com. & 1st Pfd	——	11/17
Briggs Mfg	4:00	12/12
Caterpillar Tractor	9:00	10/24
Chesapeake & Ohio Com. & Pfd	2:30	11/21
Eastman Kodak Com. & Pfd	12:00	11/ 8
Electric Storage Battery Com. & Pfd	3:15	11/17
Endicott Johnson Com. & Pfd	9:30	12/ 4
Firestone Tire & Rubber	9:30	12/15
Food Machinery Com. & Pfd	9:15	12/ 4
General Electric	9:30	11/17
Great Western Sugar Com. & Pfd	10:00	11/22
Hecker Products	9:30	12/27
Hershey Chocolate Com. & Pfd	2:00	12/26
Ingersoll-Rand	11:00	10/25
Inland Steel	2:00	10/31
International Harvester	2:00	11/16
Kennecott Copper	11:45	11/21
Lambert Co	9:30	12/ 5
Lehn & Fink	9:30	11/17
Magma Copper	2:00	11/15
Manhattan Shirt	10:00	10/23
National Biscuit Com. & Pfd	4:00	10/24
National Distillers Products	11:15	12/28
Parke, Davis	2:00	11/29
Pet Milk	10:00	11/21
Raybestos Manhattan	12:00	11/15
Sears Roebuck	2:30	10/25
Standard Oil of N. J	11:00	11/ 1
Telautograph	2:30	12/28
Texas Gulf Sulphur	9:30	11/16
Union Pacific	11:00	11/22
Westinghouse El. & Mfg. Com. & Pfd	11:00	1/25

All meetings are on common stocks unless otherwise specified.

come investor on the basis of their yield. Moreover, it appears extremely unlikely that any of these companies would fail to participate in a period of general business improvement. Earnings gains will doubtless be less pronounced than in the case of those companies identified with the cyclical industries, although conceivably sufficient to suggest the possibility of increased or extra dividends and moderate price appreciation. It might also be added that most of the common stocks in this group are the type which have been largely overshadowed marketwise during the recent interest in "war babies." To that extent, present quotations carry little risk of inflated values. The threat of increasing operating costs to these companies as a result of a war economy may prove more apparent than real—and at the most a temporary factor which in time should be largely overcome by higher prices and rates.

The Rail Equipment Boom

(*Continued from page 21*)

democracies abroad will unquestionably be big buyers of rolling stock, track accessories, etc., as the war wears on.

From earnings standpoint, the equipment group thus has an additional string to its bow as compared with the rails and marketwise, as is readily apparent from the accompanying chart, is a more volatile performer even in peacetime. It might be pointed out that much if not most of the orders recently booked will not show up in profits to an important extent until next year though substantial improvement will, of course, be witnessed this quarter; combined net income of twelve leading concerns, amounting to less than $4,000,000 last year against more than $41,000,000 in 1937, should approach the $30,000,000 mark this year. What this figure could amount to next year is anybody's guess. Most rapid near term gains will probably be scored by the car builders and certain of the specialty companies. Later on, however, if war and business go according to Hoyle, the locomotive companies will probably be the most spectacular earners. The car leasing concerns are always pretty much out of the picture in any boom.

It would be well to repeat here what was pointed out earlier in this article—that the industry must be considered from a speculative rather than an investment angle. Tied to the railroads it could not be other than speculative but, with a prospective stake in war, it is all the more so. The issues recently most spectacular on the upside will one day be even more spectacular on the downside.

As I See It!

(*Continued from page 7*)

people will be very different from those whom we have known and respected.

Next, Hitler ruined Germany's trade. First, by his stupid campaign of destruction against the Jewish people which cut German exports to 9% of total German industrial production. It was 29% before Hitler came to power. And now by the repatriation plan of the German people which has already begun in the Baltic States, Hitler strikes German exports a death blow.

For several centuries German foreign trade has been secured through these outposts of German commerce and culture established in every country—for Germany exported her most brilliant young men for the purpose of creating foreign trade for the Fatherland. In uprooting these people from the soil where they have been important factors in the life of the country for many generations, Hitler is nullifying the commercial and cultural influence of Germany in every land.

Strategically, he has placed Germany in a most vulnerable position —not only opening up the country to bolshevism on the one hand, but to being dismembered on the other hand; because should the Allies win, there is no question but that Germany will be split up into smaller states to reduce her menace to her neighbors.

Hitler has destroyed all confidence in the German word just as his bumptious claim to superiority has alienated other races. Certainly the German people should now have no illusions about Hitler and the ad-

vantages of Nazism—brown like a steak outside, but red inside. Germany is between the devil and the deep sea. Revolt against Hitler would weaken her position. The Allies are massed on the West Wall. And from the East bolshevism with all its horrors stares them in the face. What will the German people decide? —Monday, October 16.

Business to the Year-End

(*Continued from page* 12)

that business has comparatively minor gains, if any, to register in the final two months of 1939. Far from being discouraging, however, this outlook offers industry a chance to collect its forces and adjust itself to the new pace, to reduce the ever-present danger of a setback which might cancel all the progress made since last April. November and December look from here capable of doing a workmanlike consolidation job; no one could expect much more after the upsurge just witnessed.

General Refractories Harbison Walker

(*Continued from page* 41)

should show a marked rise. The ability of both companies to turn even a moderate rise in heavy industry activity into profits is shown by the figures for 1937 and 1936, the last years in which business enjoyed an upward trend comparable to that of the current year. General Refractories reported $3.20 and $3.47 per share, and Harbison Walker reported $2.17 and $2.41 for those years.

Financial position of the companies at the end of last year showed General Refractories with current assets of $4,489,831 of which cash stood at $1,036,437, and current liabilities of $793,256; and Harbison Walker with current assets totaling $8,515,026, of which $3,909,696 represented cash, while current liabilities were only $945,475.

Both companies have already paid dividends this year, Harbison 45 cents per share and General Refractories 25 cents per share, but certainly the current prices of around 36 for the latter and 30 for the former are not based on this. The stocks are discounting, to a certain extent, the as yet unreported but none the less apparent earnings gain of the last few months, and the immediate prospects for a still greater gain. Not the least important factor is the knowledge that the majority of steel makers had allowed their inventories and reserves of fire-bricks to fall below what they would need in a moderate business upswing and had done nothing about this position when the gloom faded and operations began to shoot ahead. The result is that though they are placing large orders, these are barely enough to satisfy current replacement needs and leave nothing in reserve. Obviously then, considerable business is still in the offing for the refractory makers.

Closely aligned to the heavy industries as they are, refractory producers have a far less complex operating structure and are statistically in a better position to turn current operations into profits than the majority of their customers whose stocks sell on a far higher plane. Of course the argument here is that these giants have tremendous potentialities and will far outstrip all other companies if this uptrend continues at the present rate. But then again, U. S. Steel went to around $125 per share on the magnificent dividend of $1 in 1937. Until such time as the lag between operations and actual profits for the common stocks narrows down a bit, it would seem as though the refractory stocks offer a more immediate possibility of return than do the equities of more impressive concerns.

As the Trader Sees Today's Market

(*Continued from page* 39)

listed stocks took sharper jumps than that of September, 1939. The largest dollar gain was in August, 1929, that in June of last year placed second, followed by August, 1932, April, 1933, and last month. *On none of the previous rallies did borrowings fail to rise with prices.* It is evident that this move has so far avoided one of the dangers that accompany renewed optimism—and sometimes help to disappoint it.

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY AUGUST 24, 1912, AND MARCH 3, 1933

Of THE MAGAZINE OF WALL STREET *and* BUSINESS ANALYST, published bi-weekly at New York, N. Y., for Oct. 1, 1939.

County of New York } ss.
State of New York }

Before me, a Notary Public in and for the States and county aforesaid, personally appeared Laurence Stern who, having been duly sworn according to law, deposes and says that he is the Managing Editor of THE MAGAZINE OF WALL STREET *and* BUSINESS ANALYST and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher—C. G. Wyckoff, 90 Broad Street, New York, N. Y.

Editor—None.

Managing Editor—Laurence Stern, 90 Broad Street, New York, N. Y.

Business Managers—None.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

Ticker Publishing Company, Inc., 90 Broad Street, New York, N. Y.

C. G. Wyckoff, Inc. (Stockholder), 7 West 10th Street, Wilmington Del., the stockholders of which are: C. G. Wyckoff, 90 Broad Street, New York, N. Y.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.)

Cecelia G. Wyckoff (bondholder), 90 Broad Street, New York, N. Y.

C. G. Wyckoff, Inc. (bondholder), 7 West 10th Street, Wilmington, Del., the stockholders of which are: C. G. Wyckoff, 90 Broad Street, New York, N. Y.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustee, hold stock and securities in a capacity other than that of a bona fide holder; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the twelve months preceding the date shown above is—(This information is required from daily publications only.)

LAURENCE STERN,
Managing Editor.

Sworn to and subscribed before me this 25th day of September, 1939.

[Seal] ROBERT F. CASSIDY.
(My commission expires March 30th, 1941.)

What Drop in High Grade Bonds Means to Bank Stocks

(*Continued from page 32*)

tion as holding greatest promise for the next refutation of the old theory. When adjustments have been made in certain restraining influences, money will once more be in demand and banks will again be lending it.

When business is good and everyone is making money nobody worries particularly about methods. Banks were no exception to this rule. In recent years it has been brought home to them that on a pure accounting basis their inefficiency was actually costing them money. The business world has for years been improving its methods, simplifying operations and cutting overhead. The banks have, however, been plodding along with the same old ledgers and posting methods. There was no thought of ascertaining how much it cost to make an entry, to pay a check, to write a letter or investigate the status of a company. All this has been changed by the large banks. Unprofitable accounts are charged for the services rendered, savings banks limit the number of withdrawals that may be made during a given period, and pay interest only when the account is worth a certain minimum. These changes have helped both small and large banks alike. An interesting point is that in no instance has there been any opposition to these charges and restrictions. The public has seemingly recognized their validity.

In addition there has been a concerted drive to open new avenues of service that the banks can render—naturally to increase income. One innovation in particular that is confined to the city banks because of the volume that is necessary to make it pay is the inauguration of no-minimum-balance checking departments. Each check drawn costs a few cents out of which the bank clears perhaps two cents. It takes time for the daily volume to reach the point where the bank makes a profit. In fact one large New York bank operated its no-minimum-balance department at a loss for two years before returns crossed over into the black. Now, of course, it is a good source of income. Banks are also extending their lending operations to include automobile financing, home building loans, and unsecured personal loans. Here, too, it is volume that makes this expansion possible. One fairly new practice that holds great promise is the financing of medical attention. Heretofore the public on one hand went without necessary medical attention because payment in full was not always possible—and the doctors on the other hand held sheaves of uncollected bills. The new plan provides for an agreement among the doctor, the patient and the bank. The doctor does the work and is paid off by the bank which in turn collects the bill in installments from the patient plus a small charge. The real test for these small loans, large volume departments will come, of course, with the next slump in business. Estimates are that on the whole, people dealing directly with a bank will pay their obligations just as surely as the largest concern.

A bird's-eye view then, shows the banking situation in the country to be a promising one. Certainly both city and country banks are operated on a far better basis than they were ten years ago. With practically every account fully insured; banks subject to uniform examination; strict limitations on the granting of new charters; wider sources of income and a better understanding of the problems that the changing times have brought — they show wide improvement. A sharp distinction must, however, still be made between the city banks and the country banks, especially from the point of investments. The smaller institutions have not yet recovered as a body from the errors of the past decade, nor is it likely that they will merit a clean bill of health for some years to come. They have not the volume of business that would permit the institution of some of the more recent banking ideas, nor can they escape being completely tied up in local affairs. Some of the larger banks on the other hand, have shown marked ability to improve their operations, maintain their profits and yet observe the strictest safety measures in point of investments. As income producing commitments, their stocks offer stability of income with promise of considerable appreciation.

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